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Falling Claim Frequency and Rising Claim Severity Create Unsettled Auto Insurance Claim Environment

MALVERN, Pa.— Falling auto injury claim frequency and rising claim severity have created an unsettled auto injury claim environment countrywide, according to a new report from the Insurance Research Council (IRC). The report, *Trends in Auto Injury Claims, 2008 Edition*, documents auto insurance claim frequencies and costs, both countrywide and by state, using private passenger auto claim data from national and state-level statistical reporting agencies.

The report examines recent trends for three major auto insurance coverages: property damage liability (PD), bodily injury liability (BI), and personal injury protection (PIP). From 2000 through 2006, PD claim frequency (the number of PD claims per 100 insured vehicles) decreased 11 percent; BI claim frequency decreased 19 percent; and PIP claim frequency fell 14 percent. These declines in claim frequencies mirror national trends in fatality and injury rates and indicate significant progress in efforts to make vehicles, roads, and highways safer for the driving public.

The report also documents an increase in claim severity, or the average cost of claims. From 2000 to 2006, PD claim severity increased 18 percent; BI claim severity increased 22 percent; and PIP claim severity rose 19 percent. On an annualized basis, increases in claim severity from 2000 to 2006 averaged 2.9 percent (PD), 3.3 percent (BI), and 2.9 percent (PIP). The increases in claim severity are largely attributable to the rising cost of automobile repair and medical care.

In 2006, for all three coverages, claim frequency was at its lowest point and claim severity was at its highest point since 1990. Decreasing claim frequency and rising claim severity have resulted in relatively stable loss costs, the average cost of claims per insured vehicle. Since 1997, the combined injury loss cost for all injury-related coverages has fluctuated just under \$200. Loss cost stability built on a foundation of falling claim frequency and rising claim severity raises concerns about the potential consequences should the favorable trend in claim frequency end.

“The continued drop in claim frequencies has offset escalating car repair and medical care costs,” observed Elizabeth A. Sprinkel, senior vice president of the IRC. “However, if claim frequencies start to rise or even just stop declining, then rising claim severities will increase loss costs, creating upward pressure on premiums for consumers.”

For more detailed information on the study's methodology and findings, contact Elizabeth Sprinkel by phone at (610) 644-2212, ext. 7568; by fax at (610) 640-5388; or by e-mail at irc@cpcuiia.org. Or visit IRC's Web site at www.ircweb.org. Copies of the study are available at \$250 each in the U.S. (\$265 elsewhere) postpaid from the IRC, 718 Providence Road, Malvern, Pa. 19355-0715. Phone: (610) 644-2212, ext. 7569; Fax: (610) 640-5388.

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