

A COMPARISON OF AUTO LIABILITY EXPERIENCE
UNDER A COMPULSORY LAW AND UNDER
FINANCIAL RESPONSIBILITY LAWS

BY

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In this comparison the experience of all companies is included in the Massachusetts figures. For Connecticut and New Jersey the experience reflects that of all companies filing with the N. B. C. U. and the M. I. R. B. for private passenger cars. The Connecticut commercial car experience is that of all companies reporting to the M. I. R. B. and members and subscribers of N. B. C. U. The New Jersey commercial car experience includes all companies.

The New Jersey and Connecticut data available included all loss adjustment expense. Massachusetts loss figures, as reported, exclude all loss adjustment expense. The Massachusetts loss data has been adjusted by a factor of 1.062 for private passenger cars and 1.067 for commercial cars to include allocated loss adjustment expense. To add unallocated loss adjustment expense a factor of 1.11 was applied to loss and allocated loss adjustment figures.

Similarly, since the law in Massachusetts requires only coverage on the ways of the Commonwealth and does not include guest coverage, it was necessary to combine the optional coverages with the statutory for comparison. The combination might produce some distortion, but in view of the fact that approximately 95% of those carrying compulsory coverage voluntarily purchase the optional coverages, the distortion would be slight. In addition, claim costs for the optional lines average higher than for statutory and their inclusion serves only to slightly inflate the combined average claim cost. On the other hand, frequency for the optional lines is relatively small (0.5 per hundred for private passenger cars and 0.4 for commercials). Therefore, the comparatively high frequency in Massachusetts is basically on the compulsory portion.

The three-year private passenger car exposure is approximately 3.6 million cars for Massachusetts, 3.3 for New Jersey and 1.3 for Connecticut. The five-year commercial car exposure is approximately 600 thousand cars for Massachusetts, 400 thousand for New Jersey and 150 thousand for Connecticut. The experience then is credible.

New Jersey was one state chosen for comparison with Massachusetts because it is most often referred to in other fields as a similar state in size, population and industry. Connecticut, an abutting state to Massachusetts, was selected to reflect any geographic conditions, such as climate which might have an effect on frequency, or economic standards affecting costs.

The investigation initially was to compare private passenger car

bodily injury experience only, but in view of the results, property damage experience was introduced, then commercial experience as necessary facets for a reasonable solution. Logic then necessitated the addition of a study by size of loss. Since such data was not available by state except for New York and Massachusetts, countrywide figures were employed.

Under compulsory law in Massachusetts it is apparent that bodily injury claim frequency is over double that of the other two states for both classes of vehicles. On the other hand, property damage frequency is less than 30% lower for private passenger cars and less than 10% lower for commercial cars in Connecticut and New Jersey.

Bodily injury average claim costs are substantially higher in Connecticut and New York, and property damage less than 10% lower. It is frequency then that develops the comparatively high pure premiums in Massachusetts. The question then arises as to claim consciousness of the people under a compulsory law. The analysis of loss by size of risk is indicative. The percentage of claims under \$500 in Massachusetts is approximately double that of New York or countrywide excluding New York. On the other hand, the percent over \$4,000 is about half of that of New York or countrywide excluding New York.

In conclusion, I quote from a Special Commission Report, Senate #466, 1959, the result of eighteen months study of automobile insurance in Massachusetts. "In view of the claim frequency being higher in this Commonwealth than in any other state in the nation, there must of necessity be a serious question as to whether or not a substantial number of these claims are unwarranted, exaggerated, or in some instances are even fraudulent. The problem is entirely a moral one, and it has long been axiomatic that it is useless to attempt to legislate morals."

"The claim consciousness unquestionably results from compelling all motorists to carry liability insurance on their vehicles. There can be no question but that inducement to file a claim on the slightest provocation, or even on no grounds at all, is inherent under a compulsory insurance system, and this statement should not be construed as an unfair reflection on the morals of Massachusetts people. It is nothing more than a recognition that Massachusetts people are only human, and in this connection it will be of interest to note what develops in the claim frequencies of the state of New York, whose compulsory system went into effect in February of 1957, and of North Carolina, where compulsory insurance became operative on a trial basis on January 1, 1958."

EXHIBIT I

BASIC LIMITS—PRIVATE PASSENGER—ALL CLASSES COMBINED

PURE PREMIUMS

	<i>Bodily Injury</i>			<i>Property Damage</i>		
	<i>Conn.</i>	<i>N. J.</i>	<i>Mass.</i>	<i>Conn.</i>	<i>N. J.</i>	<i>Mass.</i>
1954	30.68	17.82	36.78	11.73	10.77	15.64
1955	33.46	18.50	42.66	12.44	11.57	17.03
1956	34.02	21.10	50.35	14.09	14.00	19.93
1954-6	32.78	18.93	43.50	12.80	12.02	17.60
3 Yr. Index	0.754	0.435	1.000	0.727	0.683	1.000

CLAIM FREQUENCY

1954	3.1	2.5	6.5	9.2	8.5	12.2
1955	3.2	2.7	6.9	9.1	8.7	12.1
1956	3.7	3.1	7.7	9.7	9.7	13.4
3 Yrs.	3.3	2.7	7.0	9.3	8.9	12.6
3 Yr. Index	0.471	0.386	1.00	0.738	0.706	1.000

AVERAGE CLAIM COST

1954	1005	704	565	128	126	128
1955	1034	724	614	137	133	141
1956	915	734	660	146	144	149
3 Yrs.	979	721	617	137	135	140
3 Yr. Index	1.587	1.169	1.00	0.979	0.964	1.000

Note: All Loss Adjustment Expense Included.

EXHIBIT II

COMMERCIAL CARS

BASIC LIMITS

ALL CLASSES COMBINED

PURE PREMIUMS

	<i>Bodily Injury</i>			<i>Property Damage</i>		
	<i>Conn.</i>	<i>N. J.</i>	<i>Mass.</i>	<i>Conn.</i>	<i>N. J.</i>	<i>Mass.</i>
1951	42.15	30.22	46.22	29.81	32.25	33.28
1952	42.27	29.76	47.01	29.22	31.35	35.54
1953	39.52	31.51	47.70	31.65	31.63	35.73
1954	49.30	37.10	50.14	32.01	33.18	34.88
1955	35.69	41.05	53.52	29.10	31.23	35.60
1951-55	42.73	32.77	48.81	30.54	32.03	35.00
5 Yr. Index	0.875	0.671	1.000	0.873	0.915	1.000

CLAIM FREQUENCY

1951	4.1	4.1	9.2	28.4	29.6	33.0
1952	3.9	3.8	8.9	27.3	28.1	32.6
1953	3.8	3.8	8.1	27.9	27.4	33.0
1954	4.7	4.3	8.2	26.9	28.0	27.8
1955	4.5	4.9	8.2	24.0	25.6	26.8
1951-55	4.1	4.1	8.6	27.4	28.1	30.0
5 Yr. Index	0.477	0.477	1.00	0.913	0.937	1.00

AVERAGE CLAIM COST

1951	1027	737	495	105	109	100
1952	1087	784	515	107	112	109
1953	1038	836	576	113	116	119
1954	1060	855	609	119	118	126
1955	786	845	649	121	122	134
1951-55	1034	807	566	112	114	117
5 Yr. Index	1.827	1.426	1.000	0.957	0.974	1.000

Note: Includes All Loss Adjustment Expense.

EXHIBIT III

DISTRIBUTION OF LOSSES BY SIZE

<i>Size of Loss</i>	<i>Mass.</i>		<i>N. Y. State</i>		<i>Countrywide Ex. N. Y.</i>	
	<i>% of Total</i>	Σ	<i>% of Total</i>	Σ	<i>% of Total</i>	Σ
1-49	.3	.3	.4	.4	.7	.7
50-99	1.1	1.4	.7	1.1	1.1	1.8
100-199	3.7	5.1				
200-299	5.9	11.0				
300-399	8.5	19.5				
400-499	7.5	27.0				
100-499	25.6	27.0	13.7	14.8	11.5	13.3
500-999	24.3	51.3	18.6	33.4	13.3	26.6
1000-1999	16.5	67.8	19.5	52.9	17.5	44.1
2000-2999	10.0	77.8	12.0	64.9	13.4	57.5
3000-3999	6.5	84.3	8.4	73.3	10.7	68.2
4000 & over	15.7	100.0	26.7	100.0	31.8	100.0

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- Note: 1. Massachusetts — 1956 Policy Year.
2. N. Y. and countrywide, excl. N. Y., either Incurred Losses for accident year 1956 or losses on cases settled during any 12-month period of 1956-57.
3. Data available only for Massachusetts in 100-199, 200-299, 300-399, and 400-499 brackets.
4. No guest or extra-territorial losses included in Mass. Distribution.