ECONOMIC FACTORS IN LIABILITY AND PROPERTY INSURANCE CLAIMS COSTS

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Inflation continued to be a serious problem for the liability and property insurance companies in 1968 through mid-1969. In my original paper the LPI indexes covered the period 1935–1967. This supplement is an up-dating of that paper.

The composite LPI index which measures the effect of economic factors which are affecting claims settlement costs rose from 138.4 to 161.4 (1957–59 = 100) in the two-year period from 1966 through 1968. In incurred claims costs dollars this rise in settlement costs amounts to over \$5.7 billion in ten years, of which \$2.1 billion came in 1967 and 1968.

The following tables give the 1968 data comparable to the 1967 figures on page 64 of the 1968 *Proceedings*.

1968 Losses and Claims Adjustment Expenses	Millions
Auto bodily injury	\$ 3,800
Auto property damage	1,660
Auto physical damage	2,700
Workmen's compensation	2,000
Other bodily injury	800
Other property damage	205
Fire and allied lines	1,390
Extended coverage	320
Homeowners	1,400
Commercial multiple peril	510
Inland marine	400
Glass	28
Burglary and theft	82
Boiler and machinery	40
TOTAL	\$15,335

The above 1968 claims costs can be classified as follows:

Economic Category	Millions
Persons	$ 6,820
Property	
Automobiles	4,275
Dwellings	1,525
Buildings and structures (other)	1,875
Miscellaneous	840
TOTAL	$15,335

The 1968 total loss and claims adjustment incurred costs of $15,335 million compares with $14,040 million in 1967 and $12,440 million in 1966. Of the $2,895 million two year increase in 1968 over 1966, $2,100 million was caused by inflationary factors as measured by the LPI indexes for the several lines.

It should be emphasized here that these figures measure only incurred loss and claims adjustment costs and exclude the effects of inflation on underwriting expenses.

The construction method for the auto bodily injury LPI index has been modified as the result of comments by three reviewers of my published paper. A revised weighting method to recognize "pain and suffering" corrects the unrealistic result of the former method. For the most recent years the .57/.43 proportion for (physicians' fees)/(daily hospital charges) has been retained to calculate the medical cost index; but, in the revision, the index for "specials" is a .7/.3 proportion for the medical cost and the personal income indexes, respectively. The loss index proportions have been changed to: .21 for medical cost, .09 for personal income and .70 for "specials." (This revision makes the 3⅓ factor a uniform multiplier but this step is retained in the index for future revision consideration should the indemnity system be modified significantly in the direction of "no-fault" compensation.)

The following table shows the LPI indexes for the period 1966–1968 comparable with the 1966 and 1967 indexes (1957–59 = 100) on page 72 in the 1968 *Proceedings*. The 1966 index for auto bodily injury and the composite for 1966 are on the above revised basis for index construction. The 1967 indexes reflect 1968 revisions in several government indexes for

1967. The last column has been added to show the percentage increases for 1968 over 1966.

Claims Costs Indexes

	1966	1967	1968	1968/1966 %
Auto bodily injury	144.2	159.3	172.9	19.9
Auto property damage	140.6	149.5	162.5	15.6
Auto physical damage	137.2	142.3	154.8	12.8
Workmen's compensation	150.7	164.2	179.8	19.3
Other bodily injury	144.5	159.5	172.6	19.4
Other property damage	135.9	143.4	153.6	13.0
Fire and allied lines	126.1	132.4	140.8	11.7
Extended coverage	127.0	132.2	141.6	11.5
Homeowners	123.6	132.0	141.2	14.2
Commercial multiple peril	131.5	139.0	147.9	12.5
Inland marine	131.1	136.8	145.8	11.2
Glass	126.2	131.2	137.9	9.3
Burglary and theft	132.3	138.5	148.0	11.9
Boiler and machinery	130.5	133.5	140.4	7.6
COMPOSITE	138.4	148.9	161.4	16.6

Inflationary factors have increased claims costs for insurance companies during the past two years to a degree far in excess of the economic forces affecting tangible goods. The significant cause is the larger increase in the cost of *services* as compared with price increases in commodities. The procurement of claims services requires dealing with high cost (direct or retail) furnishers of services: doctors, clinics, hospitals, lawyers, repair garages, building trades, and other service enterprises. The two-year increases shown in the table above for auto and other bodily injury and workmen's compensation are large because physician, hospital, and legal services, all important in settlement of claims involving persons, have been affected by abnormal inflationary factors in the nineteen-sixties and particularly since 1966.

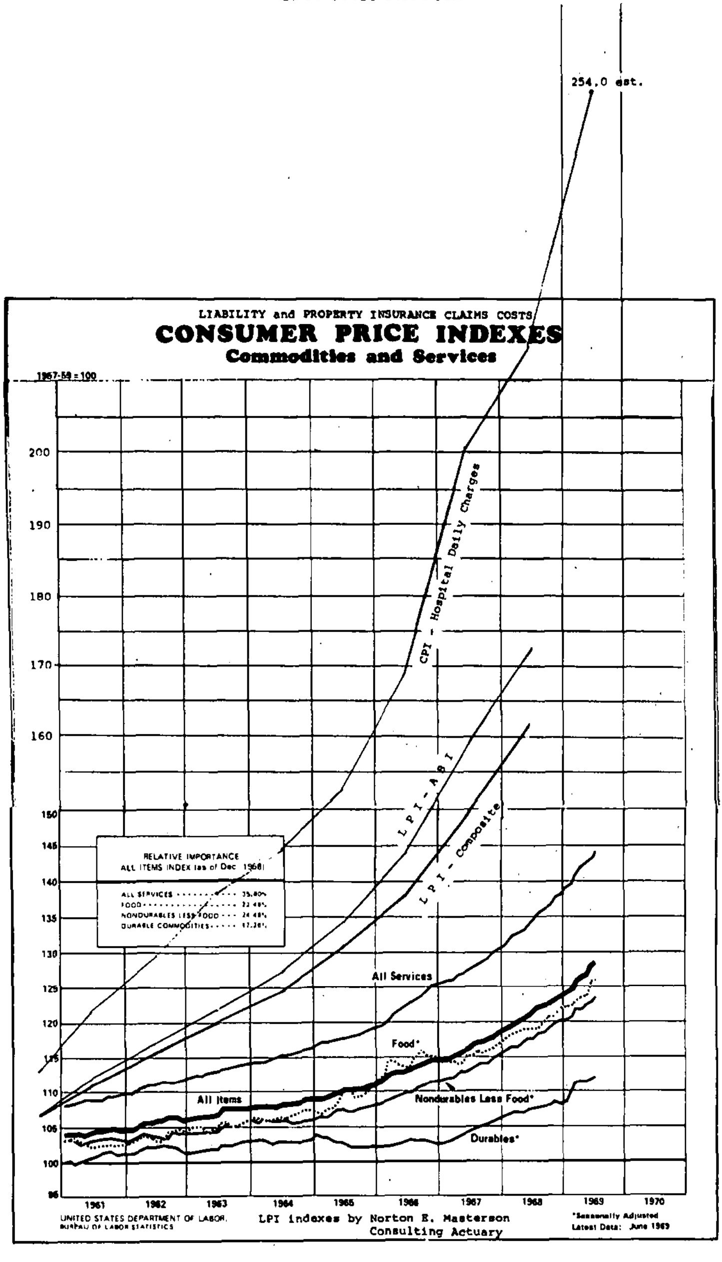
Damage to automobiles and property damage caused by automobiles (principally other automobiles), as measured by the LPI indexes for auto property damage and physical damage have been the subject of special research by the author because of other factors which are pushing claims costs related to automobile replacement or repair beyond the percentage indications of these two indexes. As noted in my published paper (page 73) these two indexes measure economic cost factors only and do not measure an insurance carrier's total average claims costs because of the closure of small property damage claims without payment and the effects of changing auto collision deductibles. A third factor which appears to be accelerating auto repair costs in addition to economic trends measured by the two indexes, is the widening gap between average auto repair services including insured damage, and insured damage repair costs *only.*

The chart on the next page shows the monthly Consumer Price Indexes published by the Bureau of Labor Statistics for: All Items, All Services, Food, Nondurables Less Food, and Durables. On the author's extension of this BLS chart are the following indexes, also on the 1957–59 base:

C P I — Hospital daily charges index of BLS

L P I — Composite and auto bodily injury indexes

This expanded chart now depicts two significant facts: (1) the widening spread between the BLS indexes for services, especially hospital daily charges, and the combined C P I and its important commodity elements; and (2) the widening gap between the Composite L P I and auto bodily injury indexes and the various BLS indexes.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LIABILITY and PROPERTY INSURANCE CLAIMS COSTS
CONSUMER PRICE INDEXES
Commodities and Services
1957-59 = 100
CPI - Hospital Daily Charges
L P I - A B I
L P I - Composite
All Services
All Items
Food*
Nondurables Less Food*
Durables*
RELATIVE IMPORTANCE
ALL ITEMS INDEX (as of Dec 1968)
ALL SERVICES 35.80%
FOOD
NONDURABLES LESS FOOD
DURABLE COMMODITIES
200
190
180
170
160
150
145
140
135
130
125
120
115
110
105
100
95
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS
LPI indexes by Norton E. Masterson Consulting Actuary
*Seasonally Adjusted
Latest Data: June 1969