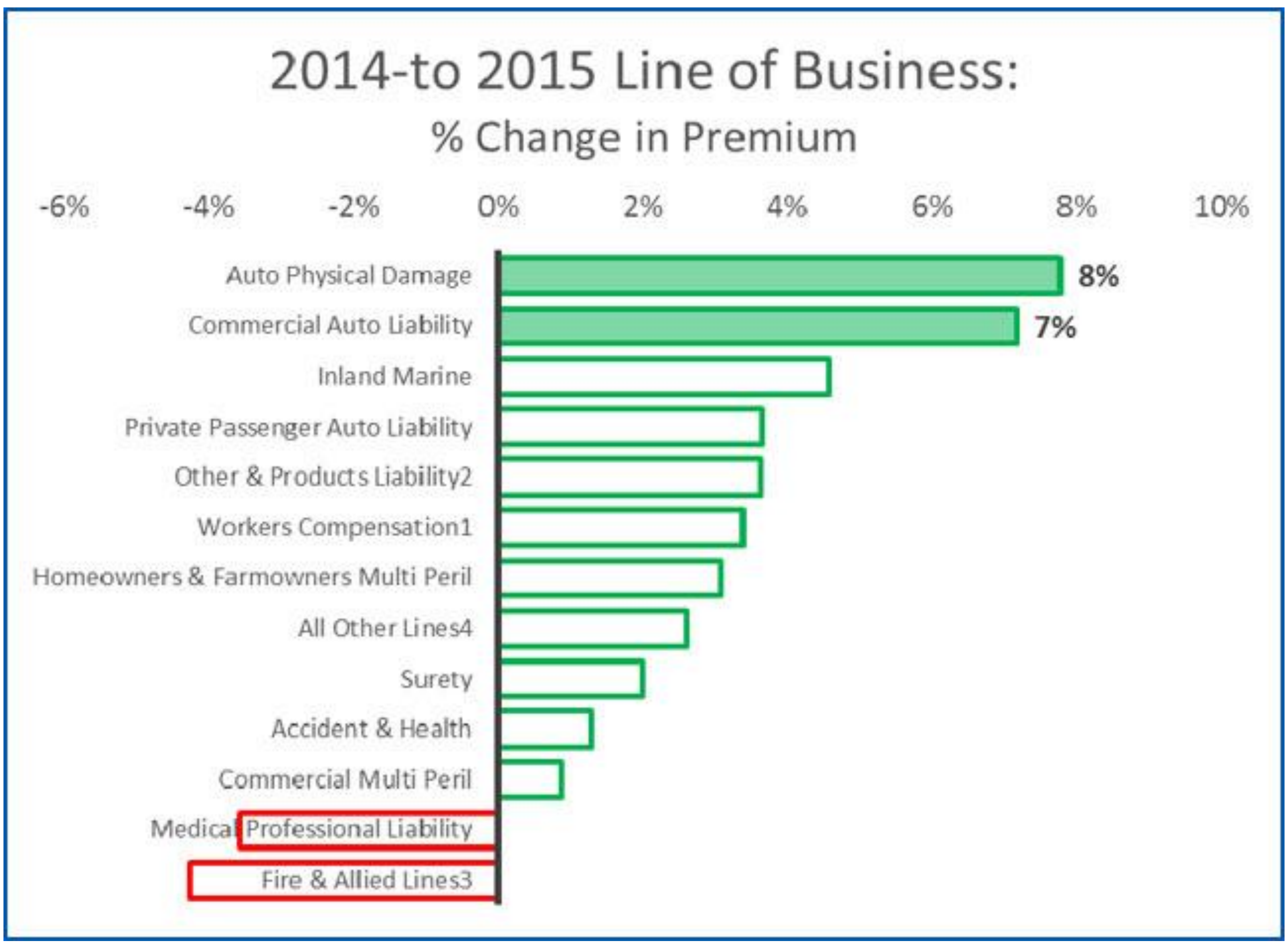
STUDENT OF THE INDUSTRY PARTING SHOT

Frequency Times Severity
Automobile Insurance Inflation

By Paul Buse, President of Big I Advantage®

Recently a headline from CNBC caught my eye: "Auto insurance rates rising at fastest rate in almost 13 years." The report was based on federal government Consumer Price Index (CPI) monthly data and it shows a6% increase, basically twice the rate of inflation. Well, being students of insurance and knowing the 2015 insurance year is now on the books, we don't have to guess or do a survey. We just go look it up. It's not April to April, year-over-year, but calendar year 2014 to 2015...but the answer looks like insurance premiums on auto lines went up by more than 6% actually.



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Source: A.M. Best and Company

So, what's going on? The CNBC article cites increasingly (a) dangerous behavior, (b) cheaper gas means more miles driven and (c) all those expensive gadgets in cars now a days. It's a well written article on the topic of insurance, and in the non-insurance media. Read it here.

Now, for a second student of insurance insight of this news. Causes "a" and "b" are intuitively associated with increased Frequency of loss and "c" is associated with increased Severity. Yes, "a-c" can influence both frequency and severity but actuaries never lose site of the fact that it is the combination of frequency **AND** severity, working together, that drives loss cost inflation.

Contest: For this week's puzzler the winner's reward is deck of playing cards, yes, emblazoned with a Big "I" classic logo. **What is the exact increase in Frequency of claims from 2014 to 2015 that when combined with an increase in Severity of claims of 3.141592% would result in claims in 2015 being exactly 106% more than they were in 2014?** That is, 6% higher, just like that cited by CNBC. First in wins but give the percentage and provide the figure to the same number of places as Severity (3.141592%). Email me your percentage carried to six-places to paul.buse@iiaba.net.