

Auto claim payments sharply increased because of social, economic inflation

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ABSTRACT (ENGLISH)

Social inflation and general inflation combined to push commercial auto liability payments higher by as much as \$44 billion, Triple-I reports.

FULL TEXT

From 2013-2022, growing litigation costs and economic inflation combined to add \$96 billion-\$105 billion to commercial and personal auto insurance loss and defense containment costs (DCC), according to a study from the Insurance Information Institute (Triple-I).

This amounted to 8.6%-9.4% of the \$1.1 trillion in booked losses auto insurers saw during the period, the trade organization reported.

"For both personal and commercial auto liability lines, social inflation was the main source of increasing inflation before 2021. For 2021 and later, increasing inflation came from a combination of economic inflation and social inflation," the study authors wrote.

Since it is much larger than commercial, the effect of both inflations on personal auto is greater when comparing absolute dollar amounts. Triple-I reported a more than \$60 billion impact on the personal side during the study period, while inflation drove up commercial loss and DCC by \$35.1 billion-\$43.9 billion.

On a percentage basis, however, commercial auto insurers felt a greater impact from inflation. Triple-I projected that personal auto saw an additional 6.5% in losses and DCC as a result of inflation from 2013-2022, while commercial auto's losses and DCC were 19%-24% higher during the period because of inflation.

This is because personal auto liability typically has lower limits, covers smaller vehicles and insures people instead of well-capitalized corporations, according to Triple-I.

Diving into the data further, Triple-I found that since 2008 commercial and personal auto insurers have been faced with auto replacement costs increasing 40% more than prices overall.

The growth in auto replacement cost was largely seen in the past few years, according to Triple-I's study. From 2008-2019, general inflation increased more than twice as fast as auto replacement costs. Since 2019, auto replacement costs have grown nearly three times faster than overall prices.

Regardless of the source, the study authors write, "inflated claims costs are the cause of recent increases in auto insurance prices and attract the attention of consumers, regulators and insurers."

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