



## INDUSTRY FINANCIALS AND OUTLOOK

### **Auto Insurance Rates on the Rise: Increased Medical Costs, High Vehicle Repair Costs, Jury Awards, Fraud Among Reasons -- Auto Owners Can Find Ways to Save Money, I.I.I. Says**

Rising costs of medical care, vehicle repair, jury awards, automobile theft and fraud are expected to drive up auto insurance rates by six percent in 2004, according to an analysis by the Insurance Information Institute (I.I.I.).

The projected increase represents a slight moderation from 2003 when auto insurance costs are estimated to rise 8.5 percent, the I.I.I. observed. The average cost for auto insurance nationwide for 2004 is estimated to be \$898 – an increase of \$51 per vehicle from this year.

“Rising claims costs continue to fuel increases in auto insurance nationally,” said Robert Hartwig, senior vice president and chief economist of the I.I.I. “It costs more to repair cars, particularly following accidents involving sports utility vehicles. This year insurers will pay between \$15 and \$20 billion in medical claims. Higher costs for hospitalization and pharmaceuticals, and state regulations that permit abuse of medical treatments and associated legal costs are also to blame,” he said.

#### **Cost Drivers in Insurance**

Medical costs have played an important factor in the auto market. Each year there are more than two million car accidents involving injuries. Typical costs for treating an auto accident victim range from \$6,000 to \$9,000, but can easily run into the tens of thousands of dollars. The cost of auto injury claims is rising by as much as 20 percent in some states.

Higher repair costs are another significant cost driver today – rising two to three times the overall rate of inflation in a number of states. The suspension of the use of generic parts in the repair of damaged vehicles is a factor that could ultimately add \$4 to \$5 billion annually to the cost of auto insurance. Name brand parts often cost 30 percent to 70 percent more than their generic equivalent, even though generic parts are of like kind and quality.

Sharply higher jury awards in vehicular liability cases are putting additional upward pressure on auto insurance rates. The average jury award in auto liability cases rose from \$187,000 in 1994 to \$323,000 in 2001 – an increase of 73 percent, according to the most recent available data from Jury Verdict Research.

“Auto liability issues are much more important than people realize,” noted Hartwig. “About 60 percent of auto premiums paid in 2002 – more than \$80 billion – were for liability coverage. As we look at 2003 and into 2004, we see this trend continuing.”

Auto theft is another significant factor that affects rates. According to preliminary data from the Federal Bureau of Investigation’s Uniform Crime Report, the number of auto thefts rose by 1.2 percent in 2002, after increases of 5.7 percent in 2001 and 0.7 percent in 2000. An estimated 1.2 million auto thefts were reported in 2001, averaging \$6,646 per vehicle or \$8.2 billion.

Fraud and abuse are major problems in some states, such as New York, Florida and Massachusetts. Loopholes in New York’s no-fault insurance statutes, for example, will cost the state’s drivers an estimated \$432 million in 2003 or nearly \$1.2 million per day.

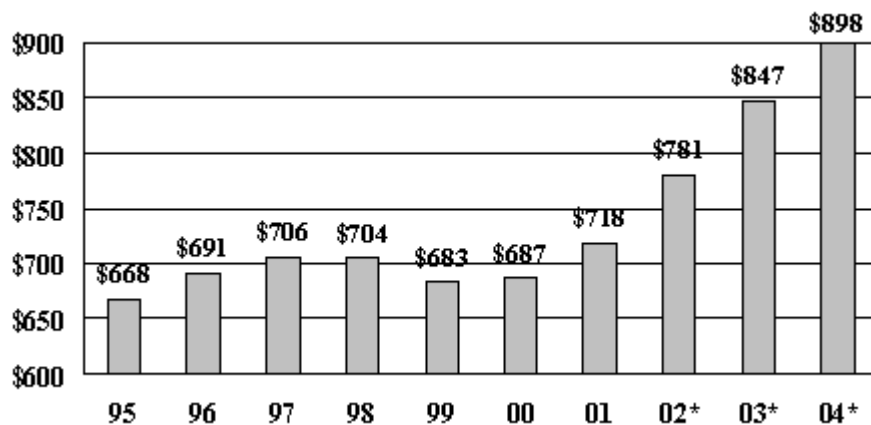
#### **Factors Affecting What People Pay for Auto Insurance**

While the average driver will pay \$898 in 2004, according to the I.I.I. analysis, what individual drivers

actually pay varies by state, by insurance company and by motorist. Underwriting factors that influence the cost of coverage might include:

- The type of car and specific safety features;
- The amount of miles driven and type of driving;
- Family claim record, including the number of severity of accidents;
- Driving record, including speeding tickets;
- Age, sex and experience of driver; and
- Credit-based insurance score.

#### AVERAGE EXPENDITURES ON AUTO INSURANCE



\* III estimates based on U.S. Bureau of Labor CPI data, company filings and trend projections.  
Sources: National Association of Insurance Commissioners, Insurance Information Institute.

#### What Consumers Can Do

Although the cost of insuring autos is rising, there are ways to offset higher insurance costs, according to the I.I.I.:

- **Raise your deductible.** Higher deductibles on your auto could produce savings of 15-30 percent or more.
- **Compare insurance costs before buying a car.** Your premium is based in part on the car's sticker price, the cost to repair it, its overall safety record and the likelihood of theft. Many insurers offer discounts for features that reduce the risk of injuries or theft. These include air bags, anti-lock breaks, daytime running lights and anti-theft devices. Cars that are favorite targets for thieves cost more to insure. Information that can help you decide what car to buy is available from the Insurance Institute for Highway Safety ( <http://www.iihs.org> ).
- **Reduce coverage on older cars.** Consider dropping collision and/or comprehensive coverages on older cars. It may not be cost-effective to continue to buy these coverages on cars worth less than 10 times the amount you would pay for the coverage.
- **Buy home and auto policies from the same insurer.** Some companies that sell homeowners, auto and liability coverage will take five to 15 percent off your premium if you buy two or more policies from them.
- **Maintain good credit.** Increasingly, insurers are using credit-based insurance scores to determine

auto coverage premiums. This is because people with good credit tend to file fewer claims. All else being equal, a person with a good insurance score will pay much less for insurance than someone with a poor score.

- **Shop around.** Prices vary from company to company, so it pays to shop around. Get at least three price quotes. You can call companies directly or access information on the Internet. Your state insurance department may also provide comparisons of prices charged by major insurers.

### **Coming Soon - 2004 Homeowners Outlook**