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Contact: Karen Burger, CPCU, CPIW
Phone: (610) 644-2100, ext. 7805
E-mail: burgerk@cpcuiia.org

New IRC Study Reveals Regional Auto Claim Cost Differences in California

Metropolitan drivers more costly to insure; claim frequency and claiming behavior are factors

MALVERN, Pa. – According to a new Insurance Research Council (IRC) report, Californians in major cities are more likely than non-metropolitan residents to 1) be involved in auto accidents, 2) have auto insurance losses per insured vehicle that are above the statewide average, and 3) file bodily injury liability (BI) claims when auto accidents occur. This report also revealed that Los Angeles claimants with minor auto injuries have an increased use of medical treatment compared to similarly-injured claimants in other areas of the state.

Over the past year, California lawmakers have held hearings on whether driver territory (where the driver lives) should be allowed to influence auto insurance ratemaking. “The trends identified in this study drive up the costs of insuring drivers in California’s metropolitan centers,” said Elizabeth A. Sprinkel, senior vice president of the IRC. “We hope that this research will inform California policymakers in the current debate over the state’s auto insurance ratemaking regulations. Many fear that if the use of territorial rating is banned in the state, most Californians will see their auto insurance rates increase in order to defray the costs of insuring drivers in high-risk metropolitan centers,” Sprinkel added.

More Accidents, Higher Costs. IRC’s study found that California regions with high accident frequencies also had high claim costs per insured car relative to other areas in the state; this is because high numbers of auto insurance claims drive up the per-vehicle costs of insuring cars in metropolitan regions. For example, in San Francisco, there were 5.29 property damage liability (PD) claims for every 100 insured cars from 1998 to 2000 (the most recent data available). The cost of insuring the average car in San Francisco under the PD coverage (PD loss cost) was nearly one-third higher than the average for the state (\$131.14 per insured car versus \$100.28). Sparsely populated California counties had PD loss costs that were significantly lower than the statewide

average.

“There is an average of three auto accidents in San Francisco for every auto accident occurring in rural Modoc County,” said Sprinkel. “Because of higher accident frequency, the cost of insuring drivers in major metropolitan centers is dramatically higher compared to other areas of the state.”

Impact of Claiming Behavior. Not all auto accidents result in bodily injury liability (BI) claims. The BI coverage is intended to compensate victims primarily for medical losses, wage loss, and rehabilitation; however, BI payments also provide for pain and suffering awards (e.g., for the emotional distress and inconvenience associated with auto injuries), which may be an additional incentive for people to sue third-party drivers for damages when minor accidents occur. IRC measured regional differences in the propensity of auto accident victims to file BI claims using the BI to PD ratio (the number of BI claims filed per 100 PD claims). BI to PD ratios tended to be much higher in California’s metropolitan centers. For example, auto accidents in the city of Glendale (in Los Angeles County) were nearly three times more likely to result in BI claims compared to auto accidents in rural Mono County (BI to PD ratios were 56.0 in Glendale and 19.3 in Mono). Because of these significant fluctuations in BI to PD ratios (and BI claim frequencies), regional differences in BI loss costs were even more pronounced than regional differences in PD loss costs.

Los Angeles: A Case Study. The report also examined California BI claimants with minor injuries in 2002. Compared to BI claimants with minor injuries in other areas of California, Los Angeles claimants with minor injuries were more likely to seek medical treatment, have at least one diagnostic procedure performed, have multiple diagnostics performed, and hire attorneys. The same group of Los Angeles BI claimants with minor injuries was more likely to visit orthopedists, chiropractors, and physical therapists. These claimants were also more likely to have more extensive (and more expensive) treatment from chiropractors, physical therapists, and general practitioners compared to similar claimants in other areas of the state. Not surprisingly, the average economic losses among BI claimants with minor injuries was higher in Los Angeles than in any of the other regions examined, and 64 percent higher than average losses in small towns and rural areas.

The IRC report also compared Los Angeles urban and suburban BI claimants. Urban BI claimants with minor injuries averaged a greater use of medical treatment, diagnostic procedures, and attorney involvement than their suburban counterparts. These urban claimants registered average losses that were 11 percent higher than average losses in suburban Los Angeles.

“It is clear that the regional costs of compensating accident victims are influenced by factors in addition to accident frequency,” Sprinkel explained. “Claiming behaviors can contribute to auto injury claim frequencies and to the overall costs of providing auto insurance. Differences in the use of medical treatment and the cost of that treatment also play a role.”

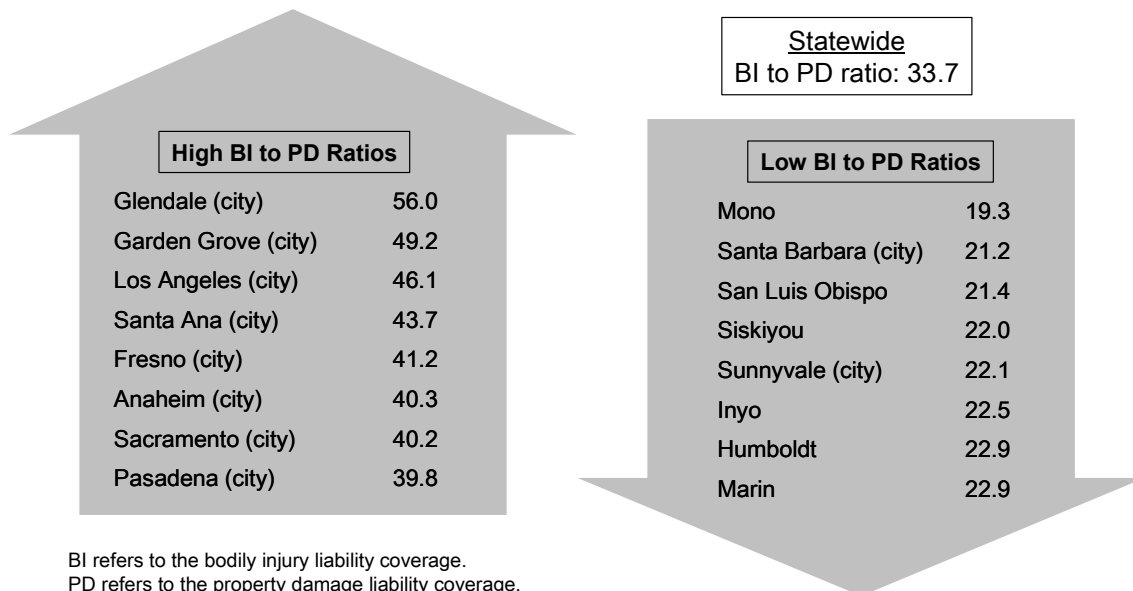
For more detailed information on the methodology and findings of *Auto Insurance Claims in California: A Research Perspective on Regional Differences*, contact Elizabeth Sprinkel by phone at (610) 644-2212, ext. 7568; by fax at (610) 640-5388; or by e-mail at irc@cpcuiia.org. Or visit IRC’s Web site at www.ircweb.org. Copies of the study are available at \$100 each in the U.S. (\$115 elsewhere) postpaid from the Insurance Research Council, 718 Providence Rd., Malvern, Pa. 19355-0725. Phone: (610) 644-2212, ext. 7569. Fax: (610) 640-5388.

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NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute for CPCU and the Insurance Institute of America. The Institutes are independent, nonprofit organizations dedicated to providing educational programs, professional certification, and research for the property-casualty insurance business. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty organizations.

Regional Differences in the BI to PD Ratio in California

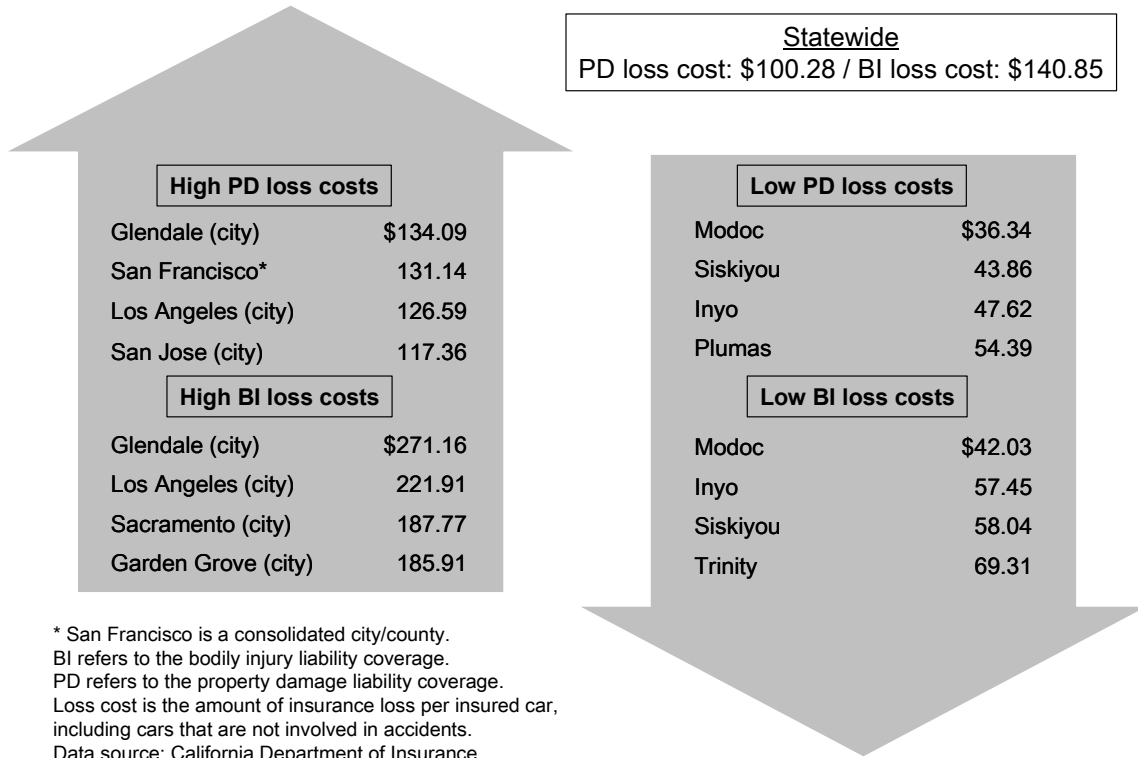
Areas represent counties unless otherwise noted.
Data are from years 1998-2000, aggregated.



BI refers to the bodily injury liability coverage.
PD refers to the property damage liability coverage.
BI to PD ratio is the frequency of BI claims per 100 PD claims.
Data source: California Department of Insurance.

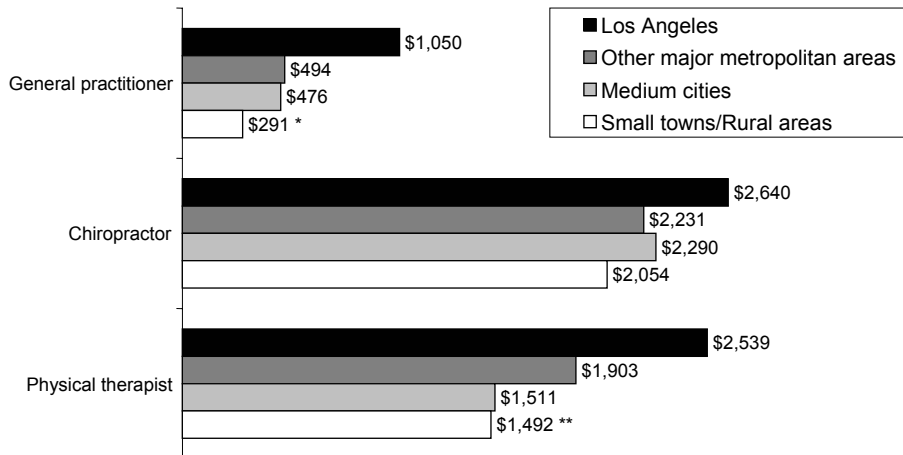
Regional Differences in PD and BI Loss Costs in California

Areas represent counties unless otherwise noted.
Data are from years 1998-2000, aggregated.



Average Total BI Charges for Selected Medical Professionals by Region

California BI Claimants With Fewer Than Ten Days of Restricted Activity



* Small sample size (n=44)
** Small sample size (n=16)

Data source: Insurance Research Council, 2002 closed claim data from *Auto Injury Insurance Claims*.