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 a 6% 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.
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.