

## Inflation Added Up to \$106B to Auto Liability Losses From 2013–22

Inflation (both social and economic) drove personal and commercial auto liability claim costs an estimated \$95 billion to \$106 billion higher than they would otherwise have been between 2013-22, according to a new report from the Insurance Information Institute (III).

“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,” said the authors of [the III study](#). The report, authored by Jim Lynch, FCAS, MAAA, III’s former chief actuary; Dave Moore, FCAS, MAAA, president of Moore Actuarial Consulting LLC; and Dale Porfilio, FCAS, MAAA, III’s chief insurance officer, builds upon previous research examining inflation and rising auto liability losses.

In prior reports, Lynch and Moore attributed higher loss development factors to social inflation since economic inflation remained fairly stable between 2000-20. However, new data shows a heightened effect from economic inflation since 2020, which has prompted researchers to adopt a new term to describe both economic and social impacts on claims: “increasing inflation.”

“Regardless of the source, inflated claim costs are the cause of recent increases in auto insurance prices and attract the attention of consumers, regulators, and insurers,” the study authors noted.

In the personal auto segment, the authors estimated that inflation boosted loss and defense containment costs by \$61 billion during the study period of 2013-22. According to the report, the inflationary effects drove costs higher by \$35 billion to \$44 billion for the commercial auto sector.

### Uptick in Severity

In the commercial auto liability segment, losses have risen faster than both overall inflation and the economy and, as of 2022, stood 49% higher than a low point in 2009. Claim severity has increased by 72% since 2013 for the line.

After peaking in 2019, commercial auto claim frequency dropped in 2020 and rebounded in 2021. In 2022, commercial auto losses returned to 2019 levels with increases in claim severity outpacing declines in claim frequency, which suggests further rate increases might follow as insurers assess the loss landscape.

“Rising losses force premiums higher two to three years later,” the study authors said. “The two-to-three-year lag has two primary elements: the time that insurers need to identify their recent loss trends and the time necessary to implement rate changes, which often require regulatory approval.”

In the personal auto segment, losses have grown faster than premiums and, as with commercial auto, claim severity accelerated in 2019 after rising steadily since 2013.

Though the dollar estimate for inflationary impact on personal auto is higher, the study authors noted that the personal auto market is much bigger. They added that personal auto insurers posted \$152.6 billion in net earned premiums in 2022, quadrupling the commercial auto liability market.

However, on a percentage basis, inflation added about 6.5% to personal auto losses but added between 18.8% and 23.6% to commercial auto losses. The authors noted that personal auto claims tend to settle faster due to lower policy limits, less damage in general than commercial vehicles, and fewer “well-capitalized” defendants.

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