

In 1946, at the end of World War II, there were 28 million registered private passenger vehicles in the United States. At the end of 1966, there were 78 million—almost three times more—and nearly 3 million cars are added to our highways each year. Today there are about 3,000 automobile insurers in the United States. These companies collect approximately \$9½ billion annually from the sale of automobile insurance coverage.

It is important to understand that automobile insurance largely determines the property-liability insurance company's operating performance. Because the market is so large, it frequently makes up the major share of most companies' business. For that reason, the automobile classification to a very large extent determines over-all company profitability.

It is also true that automobile insurance is the key to the marketing of other lines of insurance. A company must aggressively seek new automobile insureds if it is to operate successfully in the property-liability industry.

These two conditions, then, create a highly competitive environment in which a company simply cannot afford to price itself out of the market. The result is a check mate or control against runaway premium charges.

We see ample evidence of this situation in the continuing refinement in classification systems that has occurred since World War II. The industry has progressed from a very rudimentary rating classification system to a highly refined one which produces different rates not only on the basis of insureds' location, but also on the basis of age of operator, use of automobile, and record of previous accidents. This greatly refined classification system is used competitively as a means to attract the better insureds by way of a lower premium.

Not only does competition act as a barrier to unreasonable insurance costs, but the actual mechanics of revising rates also tend to hold premium costs down. Generally speaking, premium levels in any state are not changed more than once a year; in fact, there are many states in which premium levels have not been revised for two or more years. Further, the rate-making procedure involves an actuarial analysis of *past statistical* experience. Simply stated, companies are always using past experience to forecast future costs. This means that our "product" is priced and delivered before its actual cost is known. Obviously, when claim costs are rising faster than they were at the time the past statistical experience was accumulated, the standard rate-making formulas are almost certain to produce inadequate rates. My point, quite frankly, is that our rating formulas are not entirely responsive to current inflationary conditions. The result frequently is an inadequate premium charge rather than a proper one.

With respect to rising costs, attached Exhibit "B" indicates that during 1967, automobile insurance rates were increased in 32 states for the liability coverages and in 31 states for the physical damage coverages. Rate reductions were effective during 1967 in 2 states for liability coverage, in 10 states for collision coverage, and in 29 states for comprehensive coverage. The effect of rate increases during 1967 in the states where action was taken was to increase the level of liability premiums 5.3 per cent and the physical damage premiums 0.1 per cent; combined, the effect of 1967 rate action was an over-all increase in existing premium levels of 3.7 per cent in the affected states. If you take into account that there was no rate activity in some states during 1967, the over-all increase of 3.7 per cent becomes only 2.5 per cent.

Premiums have risen and unquestionably will continue to rise, simply because those benefits that automobile insurance provides involve aspects of the economy on which the current inflationary spiral will continue to have the greatest impact. This fact is clearly demonstrated by attached exhibit "C", which compares the increase in All Items of the Consumer Price Index to those selected items which have a direct bearing on automobile insurance costs. Please note that during the past 14 years, these items have risen at a much higher average annual rate than has the general level of prices reflected in the All Items category of the Consumer Price Index. Further, the rate of inflation has accelerated in the last year throughout the entire economy. For example, while Hospital Daily Service charges increased at an annual rate of 8.0 percent during the six year period 1960-1966, during 1967 the actual increase in costs was 15.5 percent, nearly double the annual rate of increase for the previous six years.

Exhibit "D", also attached, indicates how inflation has caused higher claim costs. During the three year period ending June 30, 1967, the average cost of paid claims for Bodily Injury Liability, Property Damage Liability and Medical Payments coverage have increased \$122.00, \$42.00 and \$33.00, respectively. During the most recent of these years, Bodily Injury Paid Claims rose \$59.00, Property Damage Liability claims rose \$16.00 and Medical Payments claims increased