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Will No-Fault Insurance Cost More Or Less?

C. Arthur Williams Jr.

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Whether no-fault automobile insurance will cost more or less than insurance under the present tort system is one of the most debated topics of the day. For some the answer will determine whether they will support or oppose adoption of some no-fault approach either in their state or nationwide. Because the outcome of the no-fault debate is uncertain and cost is one of its most important criteria, it deserves careful examination.

The purposes of this paper are: (1) to discuss the basic factors that affect the cost of automobile insurance under any system and to show how changes in these factors affect the premium costs. (2) to summarize briefly the pioneering costing effort of Frank Harwayne. (3) to describe in some detail why the American Insurance Association predicts substantial savings if their no-fault plan is adopted. (4) to show why the American Mutual Insurance Alliance. using AIA data. believes most costs will be reduced only slightly under the AIA plan and the costs for some coverages will actually increase. (5) to discuss the modified AIA approach used by the New York State Insurance Department, and (6) to demonstrate how sensitive the AIA estimates are to changes in several basic assumptions. and on this basis to predict whether no-fault plans will cost more or less.

Basic Cost Factors

An insurance premium can be divided into two components: the provision for losses and the provision for expenses and profits. The three coverages most affected by the conversion to a no-fault plan are bodily injury liability. property damage liability, and collision coverage. The premiums charged for these coverages by those twelve insurers whose experience was included in the American Insurance Association cost study can be allocated as follows:[1]

	Bodily injury liability	Property damage liability	Collision
Losses	55.0%	56.5%	54.4%
Expenses			
Loss adjustment expense	10.5%	9.0%	7.1%
General administration			
expense	6.5%	6.5%	6.5%
Other expense and profit	28.0%	28.0%	32.0%
	100.0%	100.0%	100.0%

Comprehensive insurance, which covers most physical damage losses other than collision (*e.g.*, fire and theft losses), would not be affected by any proposed change in the legal system.[2] The premium is most affected by changes in the provision for losses for several reasons. First, over half the premium is used to pay losses. Second, loss adjustment expenses tend to vary proportionately with the losses. Third, other expenses, except for general administration expenses, are usually budgeted as a percentage of the premium charged. Hence, if the premium is reduced to reflect favorable loss experience, these other expenses will be also reduced unless the percentage relationship is changed. Similarly, if the premium is increased to reflect unfavorable loss experience, other expenses will also be increased.

The losses paid by an insurer depend upon both the number of the claims it pays and upon the size of the average claim. Thus, if the number of claims increases by 25 percent, but the average claim size is reduced by 50 percent, the amount paid in losses will be reduced by 37.5 percent. If the number of claims increases by 50 percent but the average claim size is reduced by only 25 percent, the claims paid will increase by 12.5 percent. Perhaps a series of examples will serve to illustrate this point.

The Relationship of Losses to Claims and Claim Size

If the provision for losses is changed by a specific percentage, the loss adjustment expenses are also changed by the same percentage, the dollars required for general administration are held at the same dollar amount, and if the other expenses are held at the same percentage of the final premium, the effects on the total bodily injury liability premium would be as follows:

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2. It should be noted that this premium breakdown is not representative for some of the leading insurers. Because these insurers market their product through exclusive agents or sales representatives, they have been able to reduce their selling expenses below those indicated above. Consequently, they allocate a larger proportion of their premiums to losses and a smaller part to expenses.

Percentage change in loss provision	Percentage change in premium
+30%	+27%
+10	+ 9
0	0
—10	— 9
—30	—27

Both percentages would be the same except for the constant dollar assumption for general administration expenses, which tempers the change in either direction. However, if in addition to the changes in the other items stated above the cost of adjusting each dollar of losses was cut in half, the resulting percentage change in premiums would be as follows:

Percentage change in loss provision	Percentage Change in premium
+30%	+18%
+10	1
0	7
—10	—16
—30	—32

If instead of reducing the relative cost of adjusting claims, the percentage of the premium allocated for "other expenses and profit" was reduced from 28 percent to 14 percent, the premiums would be affected thusly:

Percentage change in loss provision	Percentage change in premium
+30%	+ 6%
+10	— 9
0	—16
—10	—24
—30	—39

But, if the loss adjustment expenses and the "other" expenses both were changed at the same time in the assumed fashion, the results would be as follows:

Percentage change in loss provision	Percentage change in premium
+30%	— 1%
+10	—15
0	—22
—10	—29
—30	—43

However, achieving these reductions would require substantial decreases in loss adjustment and "other" expenses. For example, if the premium was origi-

nally $100, the premium breakdown and percentage reduction in each compo-
nent accompanying the 30 percent reduction in the loss provision would be as
follows:

	Original $100 premium	Revised Premium Amount	Revised Premium Percentage reduction	
Losses	$ 55.00	$38.50	30%	
Expenses				
Loss adjustment expense	$ 10.50	3.68	65%	
General administration expense	6.50	6.50	0%	60%
Other expenses and profit	28.00	7.92	72%	
	$100.00	$56.60	43%	

There is much interest in whether the percentage of the premium allocated
to losses would be higher under a no-fault system. For this to be true, the
expense component must be reduced (or increased) by a higher (or lower)
percentage than the loss component. The percentage decrease (or increase) in
the premium will then be more (or less) than the percentage increase in the loss
component.

The Harwayne Approach

Frank Harwayne was the first person to estimate the change in premium if a
no-fault plan were adopted. During 1966-68 Harwayne investigated the relative
costs of the Keeton-O'Connell Basic Protection Plan and the present system for
Michigan and New York.[3] Only the second of his New York studies, which
followed closely the Michigan methodology, will be discussed here. According
to this analysis, Basic Protection Plan coverage ($10,000 no-fault coverage)
plus $10,000/$20,000 out-of-state tort liability insurance coverage[4] would cost
25 percent less than $10,000/$20,000 bodily injury liability insurance, including
uninsured motorists coverage, and $2,000 medical payments insurance. A sim-
plified explanation of that analysis follows.

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3. *See* Harwayne, *Insurance Cost of Automobile Basic Protection Plan in Relation to Automo-
bile Bodily Injury Liability Costs*, PROCEEDINGS OF THE CASUALTY ACTUARIAL SOCIETY 122-58
(1966). *See also* F. HARWAYNE, AUTOMOBILE BASIC PROTECTION COST EVALUATED (1968) and
Harwayne, *Insurance Cost of Basic Protection Plan in Michigan*, CRISIS IN CAR INSURANCE 119-
77 (R. Keeton, J. O'Connell & J. McCord eds. 1968).

4. Plus optional removal of the wage loss deductible feature—$100 or, if higher, ten percent of
the income loss—and tort liability coverage for certain pain and suffering suits permitted under
the plan.

About 53 percent of the premium charged for insurance under the present system was supposed to cover losses. Comparing the total number of personal injuries in traffic accidents as reported to police authorities with the number of bodily injury claims paid by automobile insurers under the present system. Harwayne concluded that the Basic Protection Plan would produce about 28 percent more claims. He further concluded that this figure should be reduced by about six percent to represent claims that were currently paid and would continue to be paid by self-insurers. and by another four percent to represent claims that would be paid by workmen's compensation cases. By an ingenious integration of workmen's compensation insurance. motor vehicle. and labor force data. he estimated that under the Basic Protection Plan the average economic loss. subject to a $10,000 maximum. would be $618. This was 25 percent less than the average tort claim of $825.

Collateral source benefits (*i.e.*. medicare. private medical expense insurance. and private loss of income insurance) were expected to reduce the average claim ($618) by 27 percent—to $453. This reduction was based on the proportion of the population known to have the various health insurance coverages and the estimated effect of each coverage on the losses to which they applied. Reducing income losses by 15 percent to reflect tax savings would further reduce the average claim by ten percent.[5]

All expenses other than those attributable to claims adjustment were assumed to be fixed at the same percentage of the final premium as at present. That proportion of the claims expense allocable to specific claims (currently about eight percent of the premium) was expected to be halved. but an additional allowance had to be made for the half of the claimant's attorneys' fees that the Plan charged against the insurer. The net result was a ten percent reduction in this item. Unallocated claims expense was expected to remain at the same dollar amount. The resulting Basic Protection Plan premium was then increased nine percent to reflect the higher per accident limit (100,000) of the Basic Protection Plan.

According to these calculations pure Basic Protection Plan insurance. when compared with $10,000/$20,000 bodily injury insurance. including uninsured motorists coverage. and $2,000 medical payments insurance. would save the insured 32 percent. The addition of tort liability insurance to protect him against the pain and suffering suits in excess of $5,000 which were permitted under the plan and against out-of-state tort liability coverage would reduce these savings to 25 percent.

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5. AMERICAN MUTUAL INSURANCE ALLIANCE, ACTUARIAL REPORT ON THE ADEQUACY OF THE COSTING OF THE AMERICAN INSURANCE ASSOCIATIONS "COMPLETE PERSONAL PROTECTION AUTO-MOBILE PLAN" exhibit VI (1969) [hereinafter cited as AMIA REPORT].

In two alternative computations Harwayne changed the nature of his claims adjustment expense assumption. In one he assumed a 75 percent savings in allocated claims adjustment expense and a 25 percent saving in unallocated claims expense. The second alternative resulted in no savings in claims expense. The savings under the first alternative were 31 percent. under the second 20 percent.

The reduction in the provision for losses, made possible by the reduction in the average Basic Protection Plan claim, produced most of the estimated savings. The restriction on pain and suffering awards was the single most important savings factor although collateral source offsets also played an important role.

The American Insurance Association Study

In order to permit more accurate costing than is possible using regularly published sources, the American Insurance Association gathered comprehensive data on the bodily injury losses and property damage sustained in two accident samples in seven states in early 1968.[6] The objective of the AIA study was to determine how much it would cost insurers to pay the losses arising out of these sample accidents on a no-fault basis compared with the payments made under the present tort system. The methodology is too detailed to discuss here in depth but the basic procedure will be outlined briefly.

Bodily Injury Coverages

For the bodily injury coverages most attention centered on the 9.114 injuries reported for accidents involving private passenger cars with bodily injury and medical payments coverage. It was assumed that the presence of medical payments coverage would reveal persons injured in the policyholder's car even if no negligence was involved.[7] However, comparison of injuries in the insured car with those in the other car suggested that some upward adjustment should be made in the number of injuries to occupants of insured cars. Out-of-state claims also appeared to be under-represented and were adjusted upward. Of the 10.068 adjusted injuries,[8] 5.342 were closed during the survey period.[9] Estimates were made of the proportion of these closed cases with economic losses of various sorts, the average loss sustained, the proportion with collateral source recover-

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6.   AIA REPORT 13.
7.   *Id.*
8.   *Id.* at exhibit III.
9.   AIA REPORT (Appendix), Table A-1.

ies. the average collateral source recovery. the proportion with tort recoveries. and the average tort recovery.

On the basis of this data the AIA concluded that. under the present system. 4.243 persons out of the 10.068 would have tort claims against the twleve insurers involved—the average claim being $1.034. Under a no-fault plan. 5.392 persons would collect from these insurers. their average economic loss being $584. The claim frequency would increase 27 percent; the average economic loss would be 44 percent less than the average tort settlement. Consequently the total economic losses of covered victims would be only 72 percent of the tort settlements under the present system.[10]

The AIA plan. however. would not pay the victim's entire loss. Further cost reductions totalling 7.4 percent would be produced by a 15 percent reduction for tax savings. a $750 per month limit. and collateral source recoveries.[11] Collateral source recoveries under the AIA Plan are limited to Medicare and Old Age. Survivors. and Disability Insurance. The sample data. however. also revealed the substantial effect of other collateral sources. particularly group hospital insurance. Because these insurers could recover some of the monies paid out through subrogation actions against negligent drivers in out-of-state accidents. a small reduction in cost was also possible from this source. However. the insurers would have to continue to provide protection against tort suits that might be permitted in other states. The original AIA plan also provided some special impairment benefits. The sample data were used to estimate the cost of these benefits.[12]

As shown in Table Two. the net effect of these cost factors was an estimated reduction of 22 percent in the provision for losses. Expenses and profits were expected to be reduced even more—by 28 percent. General administration costs were assumed to remain at the same dollar amount. "Other" expenses and profits were to remain at the same percentage of the final premium. Loss adjustment expenses. however. were expected to decline from 19 percent of losses to 11 percent of losses (19 percent on serious claims but only five percent. the individual health insurance percentage. on non-serious claims).[13]

The composite effect of these changes was an estimated 25 percent reduction for persons currently purchasing $10.000/$20.000 bodily injury liability insurance. including uninsured motorists coverage.[14] If the limits in this comparison

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10. *See* Appendix. Table One.
11. *See* Appendix. Table Two.
12. *See* AIA REPORT exhibit II. sheets 1-3.
13. AIA REPORT exhibit I. sheets 2.3.
14. AIA REPORT exhibit I. sheet 2.

package were raised to $25,000/$50,000 and $1,000 medical payments was added, the savings would be 44 percent because the only change required under the no-fault plan to produce equivalent protection would be to raise the out-of-state liability coverage limits.[15] The elimination of compensation for pain and suffering would produce most of the savings predicted by the AIA actuaries. Collateral source recoveries would be a minor factor. Savings on loss adjustment expenses would also be significant.

Property Damage Coverages

The AIA also predicted savings of 14 percent on property damage coverages for the average insured who currently purchases $5,000 property damage liability insurance and collision insurance with a deductible of $77.[16] The $77 figure was used because it is the average amount purchased.[17]

Loss savings, calculated at eight percent,[18] were attributed entirely to the fact that tort liability for damage to cars would be eliminated under the Plan thus shifting all these losses to the deductible collision coverage. Expenses were assumed to decrease 21 percent. Loss adjustment expenses were expected to drop to ten percent of losses.[19] Previously they were 16 percent under present property damage liability insurance and 13 percent under present collision insurance.[20] The general administration expenses were expected to remain at the same dollar amount and the "other expenses" at the same percentage of the final premium.[21]

This 14 percent savings[22] on the property coverages, coupled with the 44 percent savings[23] calculated for the bodily injury coverage, produced a 29 percent savings for a person currently purchasing the following package:[24]

$25,000/$50,000	Bodily injury liability insurance
$10,000/$20,000	Uninsured motorists coverage
$1,000	Medical payments insurance
$5,000	Property damage liability insurance
$77 deductible	Collision insurance

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15. AIA REPORT exhibit I, sheet 1.
16. *Id.*
17. AIA REPORT 14.
18. AIA REPORT exhibit IX, sheet 1.
19. AIA REPORT exhibit I, sheet 2.
20. *Id.*
21. *Id.*
22. *See* note 16 and accompanying text.
23. *See* note 15 and accompanying text.
24. AIA REPORT exhibit I, sheet 1.

Because most persons purchasing such a package also purchase and will continue to purchase comprehensive insurance, the estimated savings on the total package would be somewhat less than 29 percent.

The American Mutual Insurance Alliance Critique

The American Mutual Insurance Alliance severely criticized the AIA estimates.[25] For the package just described, the AMIA predicted only a nine percent decrease instead of the AIA's 29 percent decrease.[26] If the medical payments insurance were omitted from the comparison and the bodily injury liability insurance limits were retained at $10,000/$20,000, the AMIA predicted a five percent *increase* in the package premium instead of a 19 percent decrease.[27] The AMIA did not quarrel with the estimated savings on the property coverages but it did point out that owners who formerly collected the full amount of damage to their cars from negligent drivers of other cars would, under the new system, bear the cost themselves up to the deductible amount.

Instead of the 25 percent saving for the person who currently purchases $10,000/$20,000 bodily injury liability insurance, including uninsured motorists coverage, the AMIA estimated a 29 percent increase.[28] The AMIA was of the opinion that AIA actuaries underestimated both the pure loss costs and expenses under the new system.[29]

The AMIA adjusted the AIA estimated pure loss costs to produce an *increase* of almost 37 percent instead of savings of 22 percent.[30] Of the 28.8 percent in additional income losses, 19.2 percent was attributable to survivorship benefits in death cases which the AMIA believed the AIA had omitted in its analysis.[31] Permanent partial claims, also believed to have been omitted from the AIA estimate, were added, as well as payments to persons totally and permanently disabled beyond the 99 week maximum recognized by the AIA.[32] These adjustments were based in part on a special 1961 AMIA claims study and workmen's compensation data. In addition AMIA estimated that compensable injuries under a no-fault plan would be 65 percent higher than under the tort system—a 30 percent increase in total claims over the AIA estimate.[33] This estimate was

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25. *See* AMIA REPORT 1-6.
26. AMIA REPORT 7.
27. *Id.*
28. *Id.*
29. *Id.* at 1-3.
30. *Compare* Appendix, Table Two, *with* Table Three.
31. AMIA REPORT 10.
32. *Id.*
33. AMIA REPORT 54.

based on: (1) the fact that four of six independent United States studies have produced ratios of 55 to 70 percent and (2) a recalculation of the AIA study indications on the basis of "reasonable" data adjustments.[34] Specifically, the percentage of occupants in the other car receiving tort liability settlements was adjusted downward and the number of single-car injuries was increased.

The AMIA accepted the AIA expense assumptions except that loss adjustment expenses under the no-fault system were assumed to be 14.5 percent[35] of losses instead of 11 percent[36] because of the greater relative frequency of serious losses.

The New York State Insurance Department Study

Because the New York State Insurance Department was able (1) to use the AIA sample for New York as its data base and (2) to recognize the AMIA criticisms of the AIA approach, its study merits particular attention.

Bodily Injury Coverages

The New York Department actuaries estimated that the Department plan would reduce by 37 percent the provision for losses in the premium for $10,000/$20,000 bodily injury liability insurance, including uninsured motorists coverage.[37] The estimate differs from the AIA estimate for several reasons.

First, the New York Department no-fault proposal differs in three significant respects from the original AIA proposal. It would deduct more collateral source benefits from the automobile benefits. The entire cost of accidents involving commercial vehicles and private passenger vehicles would be borne by the commercial vehicle. For special constitutional reasons, the present tort action would be retained for survivorship benefits in death cases.

Second, the calculations were based on the New York portion of the seven-state sample.

Third, in response to the AMIA criticisms of the AIA study, some adjustments were made in the AIA methodology. The proportion of single-car accidents in the sample was adjusted upward by 28 percent to the proportion indicated by motor vehicle accident reports. Although few of these cases were

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34. AMIA Report 11.
35. AIA Report exhibit I, sheet 3.
36. *See* Appendix, Table Four.
37. N.Y. Ins. Dept., Automobile Insurance . . . For Whose Benefit?, Actuarial Supplement at 18-19 (1970) [hereinafter cited as N.Y. Supplement].

expected to exceed $100, they were valued at over $300 or half of the reported injury average.[38] The average bodily injury settlement value was based on claims closed both during and before the survey. Nationally these claims had a lower average settlement value than those closed during the survey—the figure used in the AIA study. Loss costs under the proposed system were increased to recognize: (1) the additional cost of permanent disability cases beyond the first 99 weeks included in the AIA study[39] and (2) deferred benefits for disabled children.[40] The New York Department actuaries assumed considerably fewer permanent cases than the AMIA actuaries, higher OASDI offsets which substantially reduced the average loss, and a mortality table and interest rate (five percent instead of three percent) which produced lower present values.[41] The cost of death cases was also increased but, because of the special feature of the New York law dealing with these claims, this addition was limited (except for a small upward adjustment) to the cost of death cases under the present system. The average value of such cases was only $6,555.[42]

Finally, the New York study expected general administration expenses to be reduced. More specifically, general administration expenses were assumed to be 6.5 percent of the premium under the new system.

Property Damage Coverages

Property damage liability and collision insurance premium savings were estimated at 16 percent.[43] This estimate would have been 12 percent but for the strict liability of commercial vehicles.[44] The methodology was the same as that used by the AIA except that general administration expenses were expected to be 6.5 percent of the final premium. The New York experience, however, differed from the seven-state sample in that the reduction achieved by shifting property damage liability losses to a deductible basis was 6.8 percent, not 8.1 percent, of present system loss costs.

Sensitivity of Cost Estimates

In evaluating any cost estimate it is instructive to know how sensitive the estimate is to changes in key variables within a plausible range. As noted earlier, loss frequency and loss severity are two key variables.[45] According to the AIA, the number of bodily injury claims under its plan would increase 27.1 percent

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38.   N.Y. SUPPLEMENT 28.
40.   *Id.* at 32.
41.   *Id.* at 30-32.
42.   *Id.* at 50.
43.   *Id.* at 64.
44.   *Id.* at 61-62.
45.   *See* notes 30-36 and accompanying text.

and the average no-fault benefit payment would be 56.0 percent of the average claim under the present system. The corresponding AMIA percentages are 65 percent and 78.8 percent. Table Five shows how, according to AIA methodology, the savings on $10,000/$20,000 bodily injury liability insurance including uninsured motorists coverage would vary under twelve pairs of assumptions regarding claim frequency and claim severity. The three frequency assumptions are the AIA assumption, the AMIA assumption, and an intermediate assumption. The four severity assumptions are the AIA assumption, the AMIA assumption, an intermediate assumption, and a high assumption that is the same distance above the AMIA assumption as the intermediate assumption is below it.

The savings in Table Five range from 25 percent to 47 percent. The most likely range, however, is 11 percent to 29 percent for the following reasons. AIA actuaries apparently underestimated the cost of permanent disability cases and survivorship cases in their original study.[46] The AMIA, on the other hand, has been accused of erring in the other direction. Department of Transportation data on (1) the "personal and family" economic losses sustained by families with fatalities and (2) their tort recoveries suggest a severity assumption about midway between the second and third assumption in the Table. In evaluating these savings one must remember that the insured currently purchasing this minimum coverage would have much more comprehensive protection for himself, his family, and guests in his car.

If the AIA savings estimate on property damage coverages are accepted, the savings on bodily injury and property damage coverables would vary from 29 percent to 52 percent.[47]

The inclusion of comprehensive insurance in the comparison package would reduce the savings slightly because the cost of comprehensive would not be affected by the conversion to no-fault insurance.

Conclusion

This review of leading cost studies, coupled with some elementary sensitivity analysis, suggests that no-fault insurance would cost less than automobile insurance under the present system. Indeed the savings could be substantial but they could also be substantially less than claimed by no-fault's most enthusiastic supporters. A more comprehensive sensitivity analysis is required to make more definite statements.

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46. AMIA REPORT 1, 2.
47. *See* Appendix, Table Six.

APPENDIX

TABLE ONE

ECONOMIC LOSSES SUSTAINED UNDER THE AMERICAN INSURANCE
ASSOCIATION PLAN COMPARED WITH BENEFITS PAYABLE UNDER THE PRESENT
SYSTEM ($10,000/$20,000 BODILY INJURY LIABILITY INSURANCE AND
UNINSURED MOTORISTS COVERAGE)

	Number of Claims	Average Amount	Total Cost in $1,000	Percent of present system loss cost
Benefits under Present System:				
Bodily injury liability				
insurance (10/20 limits)	4,099	$1,025	$4,201	95.8%
Uninsured motorists coverage	144	1,291	186	4.2
	4,243	$1,034	$4,387	100.0%
Economic Losses:				
Medical expenses	5,311	$ 313	$1,662	37.9%
Income loss	1,706	693	1,182	26.9
Other out-of-pocket expenses				
Paid help	663	215	143	
Transportation	221	81	18	
Funeral expense	55	1,107	61	
Miscellaneous	497	164	82	
Total	$5,392	$ 584	$3,147	71.7%

TABLE TWO

LOSS COSTS UNDER AIA PLAN EXPRESSED AS PERCENT OF LOSS PAYMENTS
UNDER PRESENT SYSTEM ($10,000/$20,000 BODILY INJURY LIABILITY
INSURANCE AND UNINSURED MOTORISTS COVERAGE)

Economic losses		71.7%
--Reductions for losses not covered		
Medical expense collateral deductions	—1.5	
15% tax deductible	—4.0	
$750 per month limitation on income loss	—1.7	—8.7
Income loss collateral deductions	—0.2	
Subrogation of out-of-state accidents where other driver is at fault	—1.3	
+Residual liability to $15,000/$30,000 on out-of-state accidents		+6.7
+Payments for additional benefits for permanent impairments		+8.2
Total		77.9%

TABLE THREE

AMERICAN MUTUAL INSURANCE ALLIANCE MODIFICATION OF AMERICAN
INSURANCE ASSOCIATION LOSS COST

	Percent of present system loss cost
ATA pure loss cost excluding residual liability	71.2%
Net additional income loss	28.8
Total pure loss costs excluding residual liability before compensable injury frequency adjustment	100.0%
Total cost after compensable injury frequency adjustment (1.30 x 100.0%)	130.0%
AIA cost of residual liability	6.7
Total loss cost	136.7%

Source: American Mutual Insurance Alliance, Actuarial Report on the Adequacy of the Costing of the American Insurance Association's "Complete Personal Protection Automobile Insurance Plan" exhibit III, at 9 (1969).

TABLE FOUR

ESTIMATE BODILY INJURY LOSS COSTS UNDER NEW YORK NO-FAULT
PROPOSAL COMPARED WITH PAYMENTS UNDER PRESENT SYSTEM
($10,000/$20,000 BODILY INJURY LIABILITY INSURANCE AND UNINSURED
MOTORISTS COVERAGE)

	Number of Claims	Average amount	Total cost in $1000	Percent of present system cost
Benefits under Present System				
Bodily injury liability				
insurance (10/20 limits)	1,438	$ 1,082	$1,556	98.3%
Uninsured motorists coverage	8	3,323	27	1.7
Total	1,446	$ 1,094	$1,582	100.0%
Economic Losses under Proposed System:				
Medical expenses	1,935	$ 308	$ 596	37.7%
Income loss	657	646	424	26.8
Other expense			89	5.6
Additional cost of long-term cases	2.5	20,000	50	3.2
Deferred benefits to disabled				
children	2	31,250	62	3.9
Total	2,037	$ 608	$1,222	77.2%
Reductions:				
Offset for medical expense			—$ 210	—13.3%
collateral sources				
Offset for income			— 103	— 6.5
collateral sources				
Average income tax offset			— 58	— 3.7
No out-of-state no-fault benefits			— 43	— 2.7
Strict liability of commercial vehicles			— 52	— 3.3
Total			—$ 467	—29.5%
Additions:				
10/20 Out-of-state liability			$ 100	6.3%
10/20 Liability for death cases			138	8.7
Total			$ 237	15.0%
Total Loss Costs Under Proposed System			$ 992	62.7%

Source: N.Y. Ins. Dep't, Automobile Insurance . . . For Whose Benefit? Actuarial Supplement 9 (1970).

TABLE FIVE

SAVINGS UNDER NO-FAULT INSURANCE FOR PERSON NOW PURCHASING
$10,000/$20,000 BODILY INJURY LIABILITY INSURANCE AND UNINSURED
MOTORISTS COVERAGE AS A FUNCTION OF CLAIM FREQUENCY AND CLAIM
SEVERITY

Average No-Fault Benefit As a Percent of Average Claim Under Present System	Claim Frequency Under No-Fault System As a Percent of Claim Frequency Under Present System		
	127	146	165
56.0	25%	16%	7%
67.4	11	0	—11
78.8	— 2	—15	—29
90.2	—17	—32	—47

TABLE SIX

SAVINGS UNDER NO-FAULT INSURANCE FOR PERSON NOW PURCHASING
COMMON PACKAGE* OF AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE
INSURANCE AS A FUNCTION OF BODILY INJURY CLAIM FREQUENCY AND CLAIM
SEVERITY

Average No-Fault Benefit As a Percent of Average Claim Under Present System	Bodily Injury Claim Frequency Under No-Fault System as a Percent of Claim Frequency Under Present System		
	127	146	165
56.0	29%	26%	22%
67.4	24	20	16
78.8	19	14	9

*   Package includes the following:
    $25,000/$50,000   Bodily injury liability insurance
    $10,000/$20,000   Uninsured motorists coverage
    $1,000   Medical payments insurance
    $5,000   Property damage liability insurance
    Average deductible collision insurance.