

20 March 2002

Mr C Dickings  
Manager Operations  
Insurance Council of Australia  
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Dear Colin

### **Study of Public Liability Claims By Size Band**

We were requested by the Insurance Council of Australia (ICA) to prepare an analysis of public liability claim size band data collected by five Australian insurers. This letter summarises the results of our analysis.

Our analysis was undertaken to assist the ICA with its submission to Federal Treasury regarding public liability claim trends. We understand that a copy of this letter may be provided to Treasury and permission is hereby granted for such distribution, as long as the letter is provided in its entirety. We would be happy to answer any questions that Treasury may have regarding the letter. Further distribution or use of this letter is not allowed without our prior written consent.

### **Description of Data**

Data was provided by five insurers.

The data included the number and amount of claims finalised in each calendar year, summarised into claim size bands. The same bands were used throughout the period covered by the study – ie. no adjustments were made to the claim bands for inflation. Both public liability and products liability claims were included.

The data are available since 1993 and represent around 30% of total public liability claim finalisations (by amount) in each year. Note that not all insurers provided their data for the full period of the study.

Claims recorded by insurers on a “bulk” basis (eg. schemes/facilities), which have the potential to distort analysis of this nature, are excluded from the data provided by companies.

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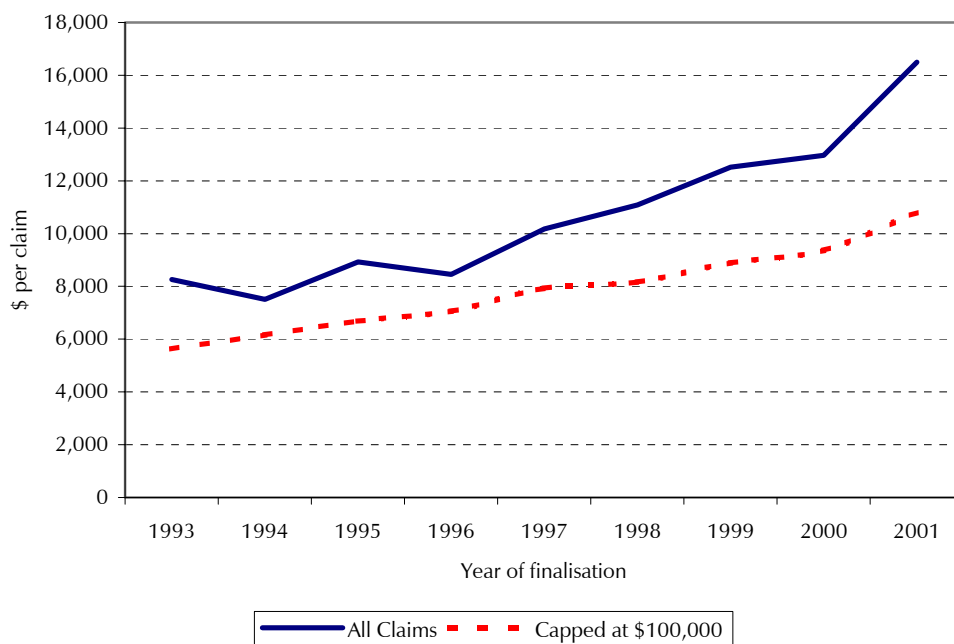
## Trends in Overall Claim Size

The data for all insurers combined is shown in Attachment A, as follows:

- A.1 – shows data for all companies, including one company for the last three years only and two companies for the last five years only
- A.2 – excludes the data for the company that was only in the 1999-2001 years
- A.3 – shows data for the two companies able to provide data for the full period.

The data for all companies included in the study show the following trend in average claim size, excluding nil cost claims. Note that the number of companies providing data changed in 1997 and again in 1999.

**Figure 1: Trend in Average Claim Size (excluding nil claims)**



The average finalised non-nil claim increased from around \$8,000 in 1993 to around \$16,000 last year. The average annual increase was thus approximately 9%. This is well in excess of “normal” inflation.

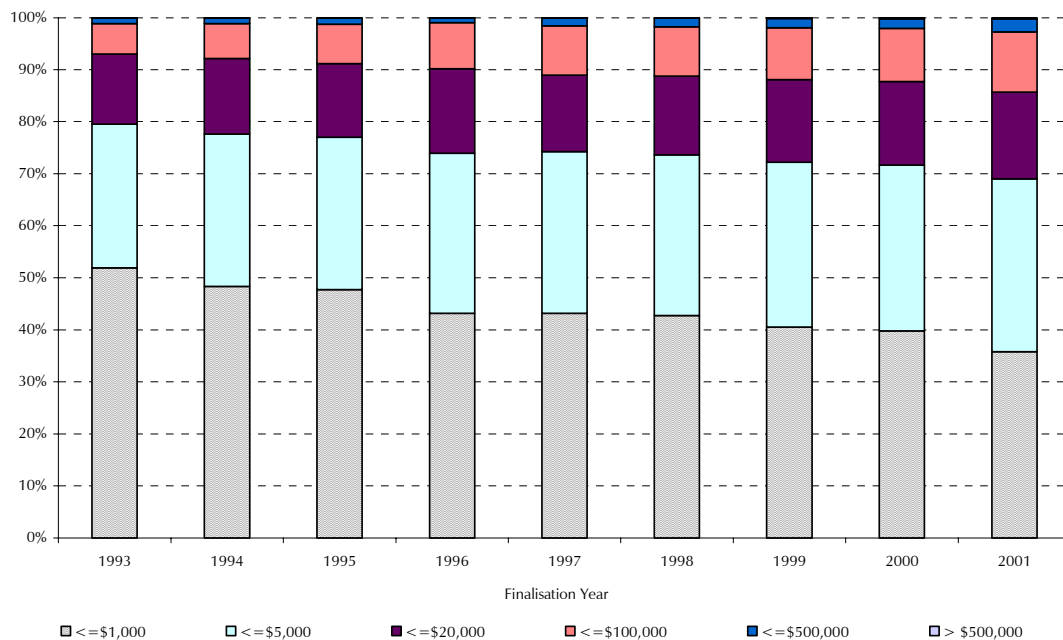
The average claim size was actually reasonably stable for the 1993 to 1996 years and has increased by an average of 15% per annum since. The average claim capped at \$100,000 per claim shows a similar increasing trend.

In order to test whether the introduction of new companies had distorted the analysis, we reviewed the same trend just for companies which had provided data for the full period (refer Attachment A.3). The trends and rates of increase are broadly similar.

### Distribution of Claims by Band

In order to understand better the differences over time, we looked at the mix by year of claim numbers and incurred cost in each band. The results are shown below for all companies except the insurer providing data for the last three years only (this company was excluded as the size bands provided by them were not consistent with the other companies). Nil claims are excluded.

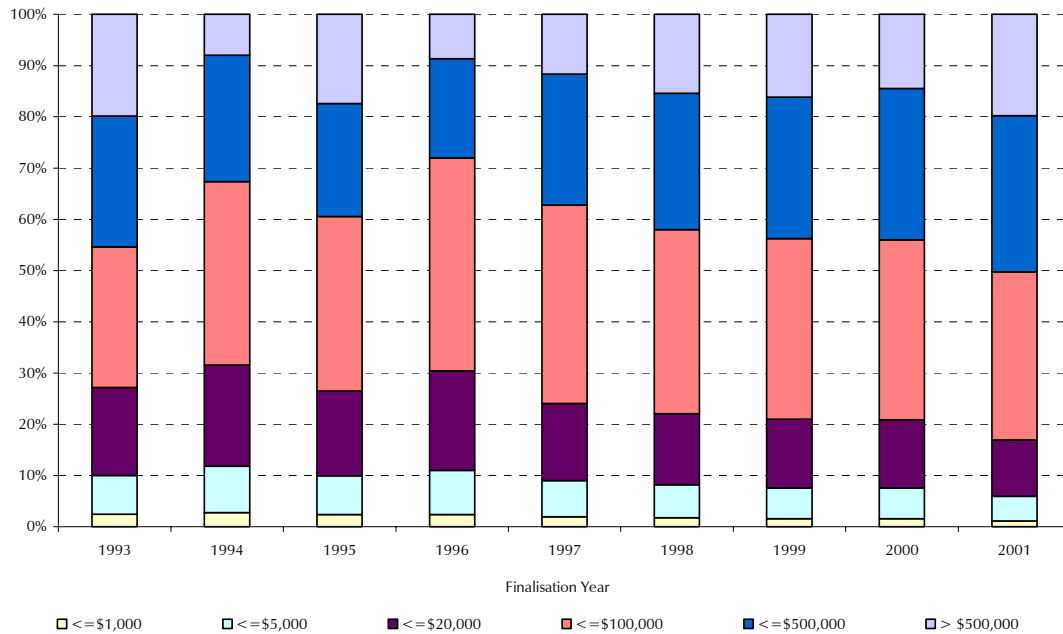
**Figure 2: Claim Numbers by Size Band**



In 1993, only 7% of non-nil claims were finalised for more than \$20,000 and this had increased to 14% by 2001. The majority of claims are for amounts of less than \$5,000.

The mix of incurred costs by size band shows a different picture.

**Figure 3: Claim Costs by Size Band**



Whilst only 7% of non-nil claims finalised in 1993 were for amounts of more than \$20,000, these claims represented more than 70% of total claims costs. By 2001, this proportion had increased to 80%. In 2001, the smallest 5% of claims represent around 50% of the total claims cost of finalised claims included in the study.

One of the contributors to the increasing average claim cost is likely to be a growing proportion of bodily injury settlements. By way of illustration, one insurer was able to provide data which showed that 23% of 1997 claims were for bodily injury compared to 28% in 2001. The average claim size for bodily injury claims looks to be around three times the average property damage claim. Hence, an increase from 23% to 28% in the proportion of bodily injury claims could add 7% to the average claim cost.

### Reliances and Limitations

Our analysis should be considered in the light of certain important limitations which are set out below.

In undertaking this study we have relied without independent verification on the data provided to us by the five insurers.

The short time frame available to us for this work necessarily limited the amount of analysis possible. In particular, we were not able to assess what impact changes in the mix of business written by the five insurers would have had on the analysis, nor the

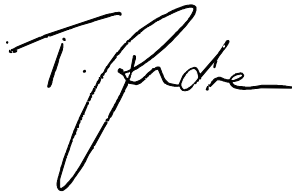
impact of changing policy deductibles. We were also unable to explore the impact of differences in the trends between bodily injury and property damage,

The claims included in the study are only a subset of all public liability claims. In this regard the results should be seen as indicative of the trends in liability claim costs rather than the definitive position of the industry-wide experience.

Normally, for a study of this type, we would like to undertake the analysis in constant dollars (e.g. inflating past claims to current dollar values). However, this was not possible as the data provided to us was in summary form, rather than on a claim by claim basis.

We trust you will find this letter useful in your discussions with Treasury. Please do not hesitate to contact us if you have any questions.

Yours sincerely



Tim Andrews



Karen Whittred

**Fellows of the Institute of Actuaries of Australia**

ICA  
Public Liability Claim Size Band Study

ATTACHMENT A.1

Summary of finalised claims by year of finalisation and claim size band  
All Insurers

Number of Claims

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Negative	11	16	17	18	17	14	19	28	51
Nil Cost	2,007	1,666	2,247	2,880	5,004	4,178	5,146	5,254	6,036
<=\$1,000	2,189	2,052	2,057	1,849	5,317	5,410	6,081	6,186	6,119
<=\$5,000	1,166	1,244	1,261	1,320	3,830	3,909	4,860	5,019	5,637
<=\$20,000	566	616	608	696	1,812	1,912	2,427	2,507	2,867
<=\$100,000	249	286	326	378	1,166	1,206	1,522	1,671	2,025
> \$100,000	47	47	55	42	190	220	301	353	505
Total	6,235	5,927	6,571	7,183	17,336	16,849	20,356	21,018	23,240

Claim Costs (\$000)

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Negative	-6	-98	-13	-7	-67	-11	-184	-88	-71
Nil Cost	0	0	0	0	0	0	0	0	0
<=\$1,000	868	878	910	855	2,451	2,511	2,824	2,983	3,049
<=\$5,000	2,620	2,887	2,924	3,146	8,839	8,979	11,281	11,668	12,872
<=\$20,000	5,996	6,304	6,345	7,015	18,804	19,501	25,218	25,838	29,506
<=\$100,000	9,548	11,396	13,092	15,055	48,572	50,333	65,625	71,599	89,402
> \$100,000	15,824	10,420	15,191	10,156	46,639	58,998	85,252	91,985	148,225
Total	34,850	31,786	38,449	36,219	125,238	140,311	190,015	203,985	282,984

Average Claim Calculation (\$)

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
All Claims	5,589	5,363	5,851	5,042	7,224	8,328	9,335	9,705	12,177
Capped at \$100,000	3,805	4,398	4,376	4,213	5,630	6,132	6,625	7,008	7,972
Exc claims > \$100,000	3,075	3,634	3,569	3,650	4,584	4,890	5,224	5,420	5,927
All non-nil claims	8,266	7,511	8,930	8,454	10,175	11,087	12,521	12,969	16,502
All non-nil capped at \$100,000	5,628	6,164	6,680	7,064	7,931	8,163	8,890	9,366	10,805
Non-Nil Exc. > \$100,000	4,564	5,113	5,473	6,144	6,488	6,539	7,048	7,286	8,099

ICA  
Public Liability Claim Size Band Study

ATTACHMENT A.2

Summary of finalised claims by year of finalisation and claim size band  
Excludes one insurer who only provided data for 1999-2001

Number of Claims

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Negative	11	16	17	18	17	14	19	28	51
Nil Cost	2,007	1,666	2,247	2,880	5,004	4,178	4,431	4,656	5,273
<=\$1,000	2,189	2,052	2,057	1,849	5,317	5,410	5,392	5,610	5,588
<=\$5,000	1,166	1,244	1,261	1,320	3,830	3,909	4,217	4,502	5,189
<=\$20,000	566	616	608	696	1,812	1,912	2,109	2,258	2,609
<=\$100,000	249	286	326	378	1,166	1,206	1,326	1,444	1,811
<=\$500,000	43	44	49	39	174	205	236	267	387
> \$500,000	4	3	6	3	16	15	23	27	39
Total	6,235	5,927	6,571	7,183	17,336	16,849	17,753	18,792	20,947

Claim Costs (\$000)

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Negative	-6	-98	-13	-7	-67	-11	-184	-88	-71
Nil Cost	0	0	0	0	0	0	0	0	0
<=\$1,000	868	878	910	855	2,451	2,511	2,505	2,727	2,801
<=\$5,000	2,620	2,887	2,924	3,146	8,839	8,979	9,806	10,480	11,799
<=\$20,000	5,996	6,304	6,345	7,015	18,804	19,501	21,940	23,412	26,811
<=\$100,000	9,548	11,396	13,092	15,055	48,572	50,333	57,403	61,545	80,058
<=\$500,000	8,902	7,888	8,489	7,008	32,055	37,377	45,071	51,758	74,487
> \$500,000	6,922	2,532	6,701	3,148	14,584	21,621	26,339	25,384	48,312
Total	34,850	31,786	38,449	36,219	125,238	140,311	162,880	175,218	244,196

Average Claim Calculation (\$)

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
All Claims	5,589	5,363	5,851	5,042	7,224	8,328	9,175	9,324	11,658
All non-nil Claims	8,266	7,511	8,930	8,454	10,175	11,087	12,258	12,426	15,635
Capped at \$500,000	4,800	5,189	5,288	4,813	6,844	7,489	8,339	8,692	10,282
Capped at \$100,000	3,805	4,398	4,376	4,213	5,630	6,132	6,611	6,783	7,829
Exc claims > \$500,000	4,482	4,938	4,836	4,606	6,389	7,051	7,701	7,985	9,369
Exc claims > \$100,000	3,075	3,634	3,569	3,650	4,584	4,890	5,229	5,302	5,916

ICA  
Public Liability Claim Size Band Study

ATTACHMENT A.3

Summary of finalised claims by year of finalisation and claim size band  
Shows only two insurers providing data for full period of study

Number of Claims

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Negative	11	16	17	18	17	14	19	28	51
Nil Cost	2,007	1,666	2,247	2,880	3,030	2,044	2,108	1,987	2,540
<=\$1,000	2,189	2,052	2,057	1,849	1,809	1,743	1,753	2,066	1,908
<=\$5,000	1,166	1,244	1,261	1,320	1,498	1,267	1,347	1,609	1,725
<=\$20,000	566	616	608	696	825	695	761	819	970
<=\$100,000	249	286	326	378	553	472	501	531	677
<=\$500,000	43	44	49	39	91	95	105	89	150
> \$500,000	4	3	6	3	11	4	8	10	13
Total	6,235	5,927	6,571	7,183	7,834	6,334	6,602	7,139	8,034

Claim Costs (\$000)

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Negative	-6	-98	-13	-7	-67	-11	-184	-88	-71
Nil Cost	0	0	0	0	0	0	0	0	0
<=\$1,000	868	878	910	855	847	802	798	993	946
<=\$5,000	2,620	2,887	2,924	3,146	3,478	3,026	3,164	3,744	3,958
<=\$20,000	5,996	6,304	6,345	7,015	8,710	7,132	7,854	8,361	10,138
<=\$100,000	9,548	11,396	13,092	15,055	22,544	19,654	21,626	22,950	30,629
<=\$500,000	8,902	7,888	8,489	7,008	17,130	16,484	20,959	17,564	29,603
> \$500,000	6,922	2,532	6,701	3,148	11,608	3,170	10,518	7,374	12,810
Total	34,850	31,786	38,449	36,219	64,251	50,257	64,735	60,899	88,014

Average Claim Calculation (\$)

Band	Year of Finalisation								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
All Claims	5,589	5,363	5,851	5,042	8,202	7,934	9,805	8,530	10,955
All non-nil Claims	8,266	7,511	8,930	8,454	13,436	11,756	14,507	11,902	16,183
Capped at \$500,000	4,800	5,189	5,288	4,813	7,422	7,750	8,818	8,198	10,170
Capped at \$100,000	3,805	4,398	4,376	4,213	5,835	6,395	6,749	6,424	7,705
Exc claims > \$500,000	4,482	4,938	4,836	4,606	6,729	7,439	8,222	7,508	9,376
Exc claims > \$100,000	3,075	3,634	3,569	3,650	4,593	4,908	5,125	5,108	5,794