Social Inflation

PAY NOTHING U.

Dr. Lars Powell, University of Alabama

Social Inflation?

- Liability costs change for reasons other than changes in frequency and severity of harm caused by defendants, or in cost of underlying goods and services.
- Changes can be social, legal, strategic, technical, etc.

Why is social inflation a problem for insurance?

NAIC Property-Liability Annual Statement: Schedule P—Part 2—Summary

	Incurred Net Losses and Defense and Cost Containment Expenses Reported at Year End (\$000 omitted)									
1	2	3	4	5	6	7	8	9	10	11
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prior	5,078,038	5,071,351	5,797,589	$6,\!254,\!020$	$6,\!226,\!103$	$6,\!196,\!693$	$6,\!272,\!376$	$6,\!319,\!513$	$6,\!380,\!162$	$6,\!556,\!014$
2012	1,500,643	1,577,357	1,781,499	$1,\!694,\!376$	1,764,741	1,730,440	$1,\!693,\!571$	1,701,902	1,710,655	1,698,728
2013		$2,\!287,\!425$	2,070,036	2,193,082	$2,\!128,\!955$	2,009,994	2,005,987	$1,\!950,\!893$	1,965,579	1,922,897
2014			2,888,365	2,592,836	$2,\!603,\!694$	$2,\!278,\!069$	2,235,793	2,246,927	2,187,825	2,172,853
2015				$3,\!435,\!994$	$3,\!284,\!263$	2,962,984	$2,\!845,\!413$	$2,\!812,\!629$	2,784,845	2,774,656
2016					3,062,746	2,886,813	2,880,132	2,813,843	2,753,745	2,601,211
2017						3,285,381	3,003,720	2,927,313	2,893,535	2,896,689
2018							3,516,789	$3,\!555,\!336$	3,548,912	3,519,332
2019								2,782,336	2,690,015	2,637,746
2020									2,942,142	2,952,660
2021										$3,\!452,\!200$
4										





CENTER FOR JUSTICE DEMOCRACY At NEW YORK LAW SCHOOL

HOW THE CASH-RICH INSURANCE INDUSTRY FAKES CRISES AND INVENTS SOCIAL INFLATION

By:

J. Robert Hunter, Director of Insurance, Consumer Federation of America Joanne Doroshow, Executive Director, Center for Justice & Democracy Douglas Heller, Insurance Expert, Consumer Federation of America

> CONSUMER FEDERATION OF AMERICA CENTER FOR JUSTICE & DEMOCRACY

> > March 2020

Commercial Auto Liability Direct Losses Incurred



Trends in large verdicts/settlements



Source: Oh, S.S., 2020. "Social Inflation," Working Paper University of Chicago

Trends in large verdicts/settlements



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Commercial Auto Losses





What causes social inflation?

Plaintiff bar performance



Advertising









Litigation funding

Public attitudes

- Income inequality
- #MeToo
- Social justice
- Equity



How to address social inflation?

Invest in technology and information



Databases Analytics Praedicat

Evaluate legal defense strategies





Collaboration

Product innovation

- Cost sharing
- Parametric coverage
- Liability risk securitization



Join the public policy conversation

- Current insurer advertising
- Consolidation



Thank you



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