Social Inflation

"Social Inflation" is the term used by insurers to describe the rising costs of insurance claims resulting from things like increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards.

Nearly every insurance company CEO is talking about social inflation and how claims costs are increasing in ways that were not anticipated.

Social inflation is hard to predict, and makes the underwriting and pricing of risks such as Worker's Compensation. Directors and Officers, Medical Malpractice, General and Public Liability a challenge.

Over the past five or six years, trucking firms have seen verdicts of $30 million, $50 million and sometimes up to the $100 million range. That immediately burns through the primary liability coverage, which typically has relatively short limits ($1 million to $10 million) and bleeds into the umbrella and excess liability towers as well.

“Probably one of the biggest drivers of social inflation is the general anti-corporate sentiment that exists, reaching back to the financial crisis,” said Mike Hudzik, managing director, head of casualty underwriting, US & Canada, Swiss Re. “It seems like it’s a long time ago in our rear-view mirror, but it really created an environment that continues to gain momentum today. Since that time, there’s been a greater division or separation of wealth, and there’s just generally a feeling that someone needs to pay when there’s some kind of damage or injury sustained, regardless of negligence."

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Sources:
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