Social Inflation

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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?

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Incurred Net Losses and Defense</th>
<th>Cost Containment Expenses</th>
<th>Reported at Year End ($000 omitted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior</td>
<td>5,078,038</td>
<td>5,071,351</td>
<td>5,797,589</td>
</tr>
<tr>
<td>2012</td>
<td>1,500,643</td>
<td>1,577,357</td>
<td>1,781,499</td>
</tr>
<tr>
<td>2013</td>
<td>2,287,425</td>
<td>2,070,036</td>
<td>2,193,082</td>
</tr>
<tr>
<td>2015</td>
<td>3,435,994</td>
<td>3,284,263</td>
<td>2,962,984</td>
</tr>
<tr>
<td>2016</td>
<td>3,062,746</td>
<td>2,886,813</td>
<td>2,880,132</td>
</tr>
</tbody>
</table>
HOW THE CASH-RICH INSURANCE INDUSTRY FAKEs CRiSES AND INVENTS SOCIAL INFLATION

By:
J. Robert Hunter, Director of Insurance, Consumer Federation of America
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CONSUMER FEDERATION OF AMERICA
CENTER FOR JUSTICE & DEMOCRACY
March 2020
Commercial Auto Liability Direct Losses Incurred

Direct Losses Incurred (US$ Billions)

Year: 1984 - 2020

Values:
- 1984: $5
- 1991: $10
- 2000: $15
- 2007: $20
- 2014: $25
- 2019: $25

The graph shows a steady increase in direct losses incurred from 1984 to 2020, with a sharp rise in recent years.
Trends in large verdicts/settlements

Trends in large verdicts/settlements

Commercial Auto Losses

- Incurred losses
- Paid losses
- Commercial miles
- CPI
What causes social inflation?
Plaintiff bar performance
Advertising
Tactics
Litigation funding
Public attitudes

- Income inequality
- #MeToo
- Social justice
- Equity

Well that’s like... just your opinion, man.
How to address social inflation?
Invest in technology and information

Databases

Analytics

Praedicat
Evaluate legal defense strategies

- Compensation
- 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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