

Social Inflation Impact Begs for Quantification

Social inflation was attracting a lot of attention before COVID-19 hit the scene. Search the internet for buzz words like “nuclear verdicts” and “reptile theory” and you’ll see what I mean.



Before COVID-19, insurance company presidents and experts pointed to the phenomenon as a force behind rising premiums for most commercial insurance lines. But I was skeptical. After 30 years in the property/casualty insurance world, this was not the first time I heard social inflation was rearing its ugly head and pressuring insurance premium costs.

What is social inflation? To oversimplify, its essence is that Americans unhappy with the nation’s economic and social conditions are more likely to be sympathetic to plaintiffs who sue companies. Of course, there is a lot more to this, including legal strategy, jurisdictional differences and so forth.

My recent Actuarial Review cover story, [**Tipping the Scales: Measuring the Impact of Social Inflation**](#), reviews its evidence, its impact on losses and ultimately, rates. Although there is proof that social inflation is a thing, it is not showing up in industry data. Therefore, it is difficult to know its real impact and frankly, how much attention it deserves.

...the insurance industry should invest in quantifying social inflation’s impact

That is why I believe the insurance industry should invest in quantifying social inflation’s impact on coverage costs. This could eliminate a lot of confusion and facilitate a more informed dialogue about the impact of legal costs in general.

If social inflation is linked to American satisfaction, which was not great before the coronavirus crisis, there are certainly more economic and social reasons for so-called “angry” juries to be in a worse mood now. In fact, the industry could have a stronger case for the impact of social inflation than before.

Perhaps the phenomenon is a symptom of deeper problems. Why are Americans angry? My suspicion is we expect more today than our ancestors. If we expected as much from ourselves as we do our institutions, everyone would be better off.

The article also provides evidence that juries are losing impartiality by giving more weight to feelings than facts. In that regard, social inflation should concern us all.

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