

TRIPLE-I TALKING POINTS:

Social Inflation

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Issue overview: Social inflation refers to rising litigation costs and its impact on insurers' claim payouts and how much policyholders pay for coverage.

The insurance lines most affected are commercial auto, workers compensation, professional liability, product liability, and directors and officer's (D&O) coverage.

Key idea: The direct link between higher litigation costs and the price of insurance is neither widely understood nor discussed. The normalization of very large jury verdicts, state laws which either extend or repeal retroactively statutes of limitation, increased attorney involvement in liability claims, and the proliferation of class action lawsuits are driving this trend along with the emergence and growth of third-party litigation financing.

Moreover, the enactment of tort reform—legislation to reduce liability costs through limits on various kinds of damages and through modification of liability rules—is generally a low priority among U.S. state lawmakers.

Talking Points:

- The average general liability combined ratio was estimated at 104 percent for 2019, the sixth consecutive year of underwriting losses.
- The combined ratio is the percentage of each premium dollar an insurer spends on claims and expenses. In the above-captioned example, insurers paid out \$1.04 for every \$1 collected.
- This trend is contributing to higher insurance costs.
- A commercial general liability policy (CGL) covers all liability exposures of a business that are not specifically excluded. CGL policies generally include product liability, premises and operations, and independent contractors.
- The 2019 auto liability combined ratio was 110 percent, a payout of \$1.10 for every \$1 collected.
- Insurance coverage is just one part of the equation in battling social inflation. Risk mitigation strategies should also be implemented to make businesses more resilient to prevent litigation.
- Insurers must allocate legal resources to defend themselves against plaintiffs' attorneys.
- The U.S. Chamber of Commerce's Institute for Legal Reform is helping insurers and businesses fight against the rise of social inflation.