Combating Social Inflation:

Strategies for Claims Organizations to Reduce Leakage

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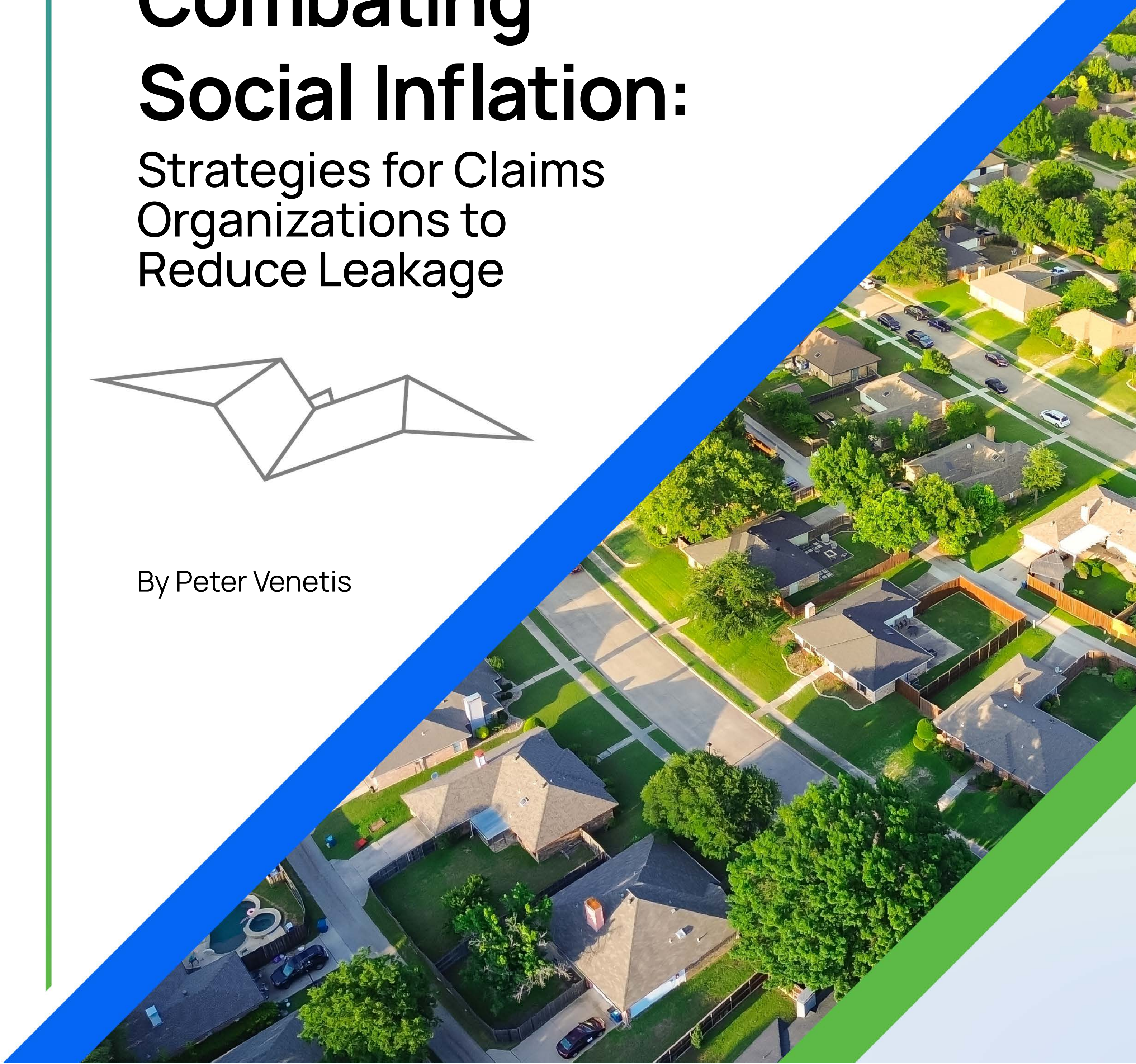

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Executive Summary

Social inflation is reshaping the landscape of property and casualty (P&C) insurance — especially in high-severity claims. Once an undercurrent, it's now a defining force behind rising loss costs, nuclear verdicts, and unpredictable claims cycles.

In 1977, Warren Buffet explained to his shareholders that insurance sector costs would likely rise because of a concept he called "social inflation." He explained that this term referred to "a broadening definition by society and juries of what is covered by insurance policies." The definition evolved in the mid-1980s when the insurance industry first noticed rising verdicts as a result of increased asbestos claims. Insurers responded with stricter underwriting and increased reserves — but the underlying trend receded in the 1980s.

However, it reemerged in the 2010s due to the erosion of tort reform protections[1], the growth of third-party litigation funding, aggressive plaintiffs' bar tactics, jurors' shifting attitudes toward corporations, and the viral influence of social media on public opinion. As a result, large jury verdicts jumped in frequency and size, especially in sectors like trucking, construction, and medical liability. The ripple effect extended to settlement demands, reserving practices, and reinsurance pricing. After the COVID-19 pandemic, social inflation has only continued to grow.

Once a term reserved for actuarial circles, social inflation has become one of the most pressing challenges for P&C carriers. This whitepaper explores:

- The impact of social inflation on insurance carriers over the years
- An overview of which lines of business are especially vulnerable
- Strategies for claims organizations to mitigate its impact

By combining a data-driven defense strategy, AI-powered litigation analytics, and process and training improvements across the organization, carriers can prepare their organizations to withstand the growing impact of social inflation. With intelligent approaches, carriers can better anticipate litigation risk, assign the right counsel at the right time, and improve their enterprise's resolution outcomes and oversight practices, ultimately cutting down on costs and improving loss ratios.

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1. Examples include removing caps on non-economic damages and punitive damage and reforms to joint and several liability.

Evolution of Social Inflation

The aftermath of the COVID-19 pandemic has significantly accelerated the rise of social inflation, making it a growing concern for the insurance industry and beyond. While earlier periods of social inflation were primarily driven by tort reform and greater access to legal representation, the current wave — shaped by societal shifts since the mid-2010s — has been further intensified by the global disruption of the pandemic.

COVID-19 acted as an accelerant to the traditional effects of social inflation, notably:

- **Court backlogs** led to pent-up litigation pressures that increased the reliance on settlements, often at inflated values
- **Public sentiment** has shifted even further toward individuals over corporations after widespread personal and economic losses
- **Remote juries and trials** have altered dynamics and outcomes by reducing formality and heightening emotional influence
- **Economic hardships** and **rising distrust** in institutions have led to even higher damage awards

Insurers are also now facing delayed claim resolutions, prolonged severity curves, and increased legal complexity. These shifts have created an environment where even mid-severity claims can proliferate into high-exposure events. For instance, the median value of nuclear verdicts surged to $44 million in 2023, more than doubling the $21 million median seen in 2021, when courts were still recovering from COVID-related delays.

This dramatic increase signals a fundamental shift in liability risk, with extreme "thermonuclear verdicts" now reaching as high as $1 billion. Additionally, there has been a noticeable increase in injury claims where subjective assessments of pain and suffering are driving higher settlement values. This trend is further fueled by aggressive legal advertising and tactics such as the "reptile theory," which exploit shifting public sentiment toward corporations.

Another significant contributor is the continued influence of third-party litigation funding (TPLF). Since courts reopened after the pandemic, there has been a clear rebound in case filings and plaintiff success rates — signaling a heightened litigation environment where associated costs are outpacing economic inflation. These dynamics are creating substantial challenges for underwriting and risk management, as insurers and businesses face increasing exposure to large verdicts and mounting legal expenses.

The combined effects of economic and social inflation continue to drive a steep rise in insurance costs, particularly in the auto liability sector. Between 2014 and 2023, these inflationary pressures contributed an estimated $118.9 billion to $137.2 billion in additional auto liability losses and associated defense and cost containment (DCC) expenses. This represents 9.9-11.5% of the total $1.2 trillion in net losses and DCC during that period.

Even more concerning is the acceleration of this trend: The impact marks a 24-31% increase over previous estimates for 2013–2022, which ranged from $96 billion to $105 billion. This trajectory poses a significant challenge for insurers, as claims severity and litigation expenses now consistently outpace traditional economic growth.

In the post-COVID environment, the rise of AI-powered litigation strategies, often backed by third-party litigation funders, is intensifying social inflation. These tools give plaintiff attorneys an edge in case valuation, jurisdiction selection, risk modeling, and argument optimization. As a result, insurers face growing exposure to large-scale verdicts — including a surge in "nuclear" and "thermonuclear" awards, particularly in subjective injury cases — exacerbating information asymmetry and inflating claim severities across the board.