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Inflation and Insurance

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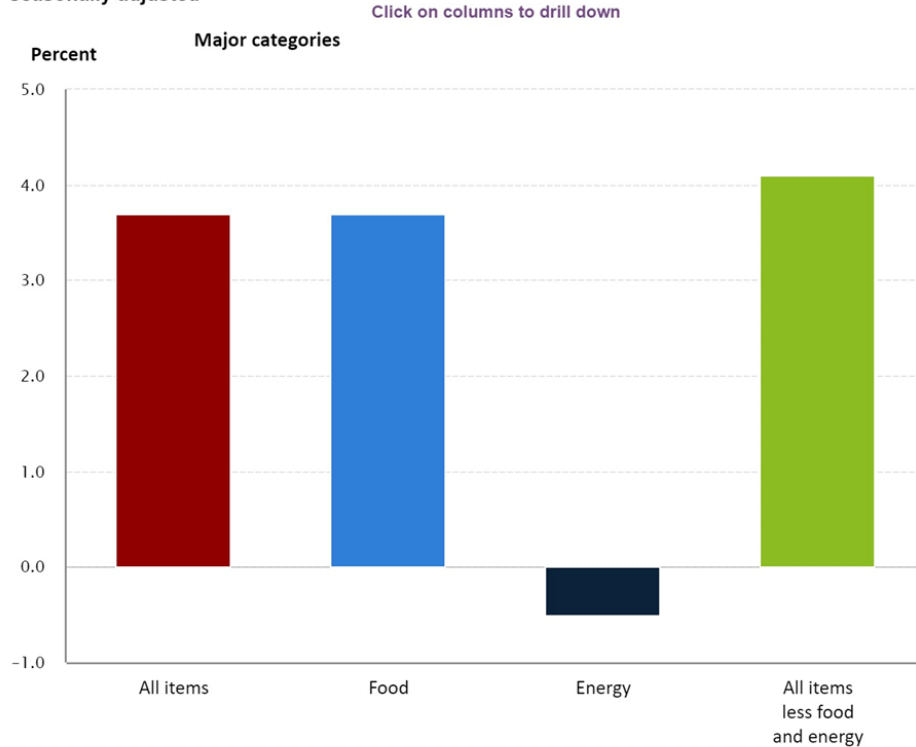
Insurers & Inflation: Four Important Measures

1. General Inflation
2. Claims Cost Inflation (including Social Inflation)
3. Wage Inflation
4. Interest Rates



Insurers & Inflation: General Inflation

12-month percentage change, Consumer Price Index, selected categories, September 2023, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

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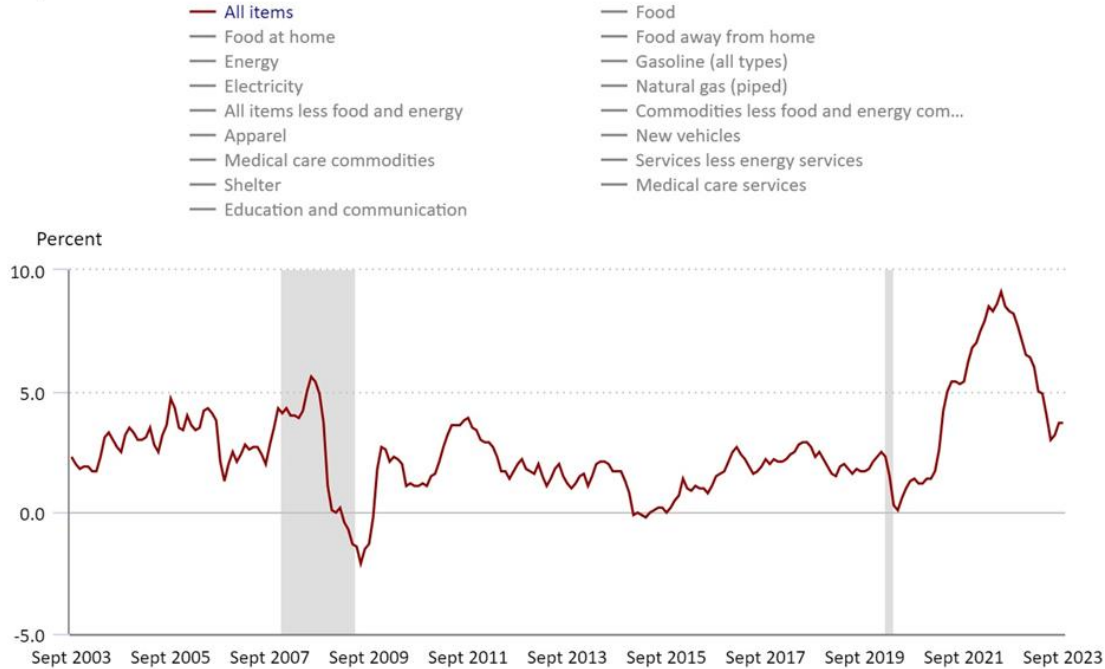


Inflation diminishes the buying power of money, which means that premium payments no longer go as far as they once did. As a result, insurers are raising rates to keep up with the increasing costs.



Insurers & Inflation: General Inflation

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.



Insurers & Inflation: Claims Cost Inflation

“Why did your insurance rate go up this year?”

- Housing material and labor costs have increased
- The microchip shortage
- Auto repair and labor costs have increased
- Healthcare costs trending upwards
- Supply-chain issues



Insurers & Inflation: Claims Cost Inflation

Social Inflation:

- Changing jury attitudes with larger sums awarded in tort cases, especially for non-economic damages
- The growing availability of third-party litigation funding allows plaintiffs to pursue better-funded cases for longer
- Additional capital also leads to increases in legal advertising by plaintiff lawyers
- Social sentiment: trust in institutions has declined
- Expanding legal concepts



Insurers & Inflation: Wage Inflation

- Related to Claims Cost Inflation covered above; but note also more of an issue in a service economy, and as an input to getting work done
- Impacts insurance industry as a part of the service economy
- Until recently, this type of inflation was stubbornly high in the broader US economy



Insurers & Inflation: Interest Rates

- Federal reserve raising rates in an effort to stop rising inflation, which also pushes down economic growth
- Cost to insurance companies of raising capital in bond market increases with elevated interest rates demanded by buyers of bonds
- Currently “disinflation” – not going up as fast, but still elevated



Questions?

