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# **Inflation and Insurance**

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In keeping with the non-partisan, non-advocative mission of The Griffith Foundation, I will keep my comments and contributions to today's program unbiased and purely educational.



# Insurers & Inflation: Four Important Measures

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



# Inflation and Insurance

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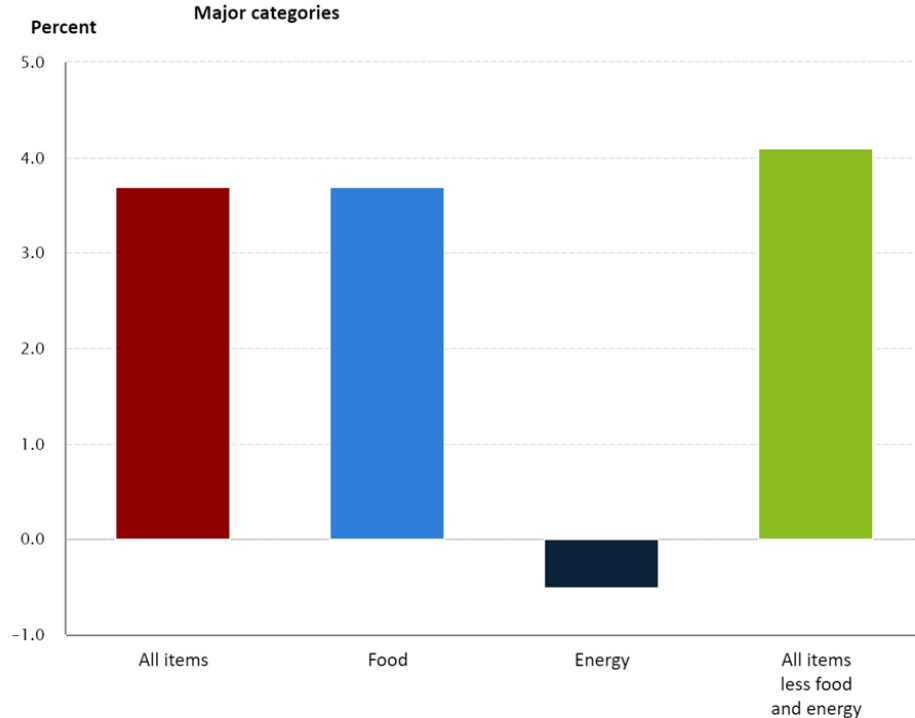
Management guru Peter Drucker (who once said that the only thing we know about the future is that it will be different) compared predicting the future to driving a car down a dark country road with no lights while looking out the rear window.



# Insurers & Inflation: General Inflation

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

Click on columns to drill down



Source: U.S. Bureau of Labor Statistics.

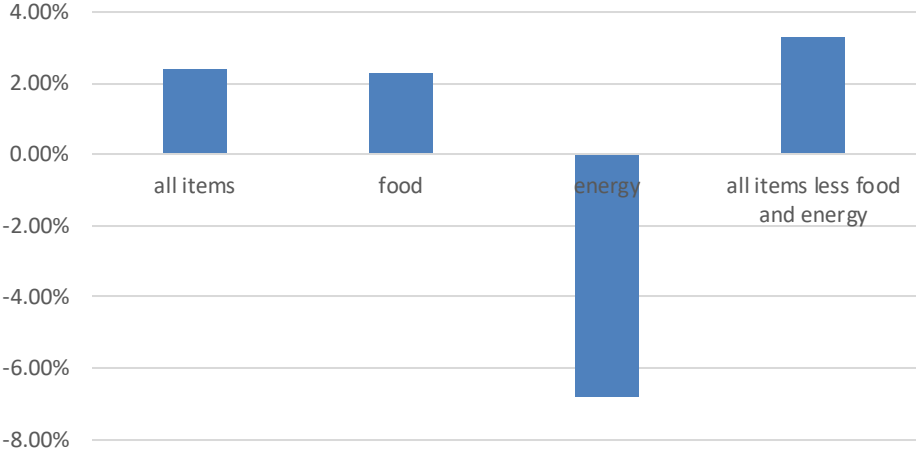


Inflation diminishes the buying power of money, which means that premium payments no longer go as far as they once did. As a result, insurers are raising rates to keep up with the increasing costs.



# Insurers & Inflation: General Inflation

12 Month %age change. Consumer Price Index, selected categories, September 2024, not seasonally adjusted

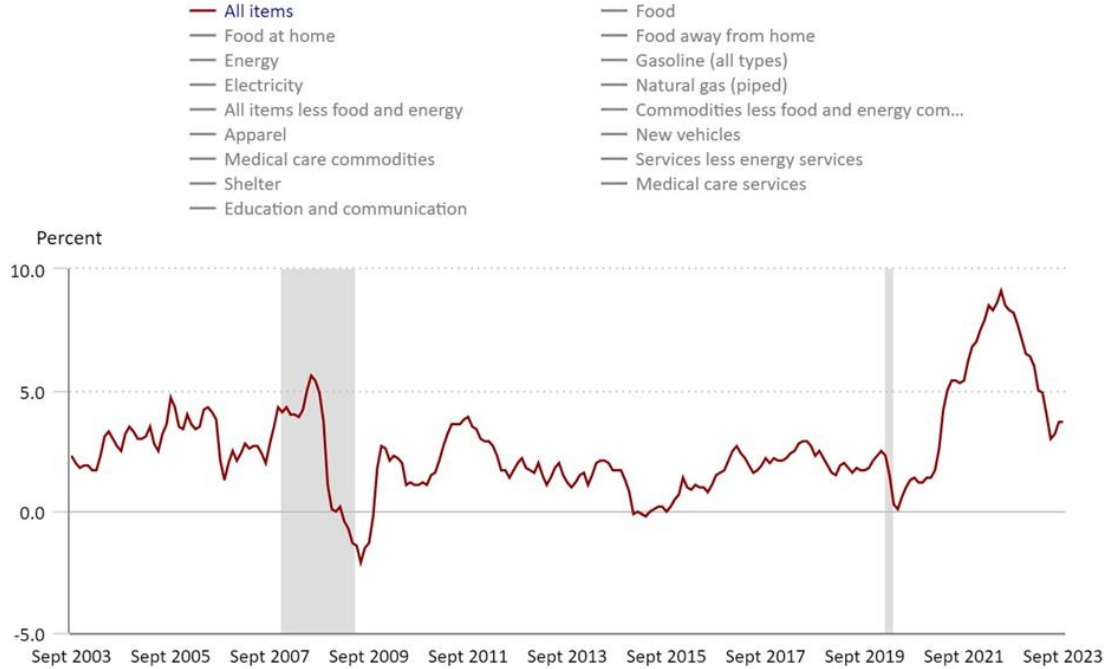


While inflation has been brought under control compared to last year, insurers are still in the process of catching up. Insurers are not able to capture all of the Inflation experienced in previous years within one year.



# Insurers & Inflation: General Inflation

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



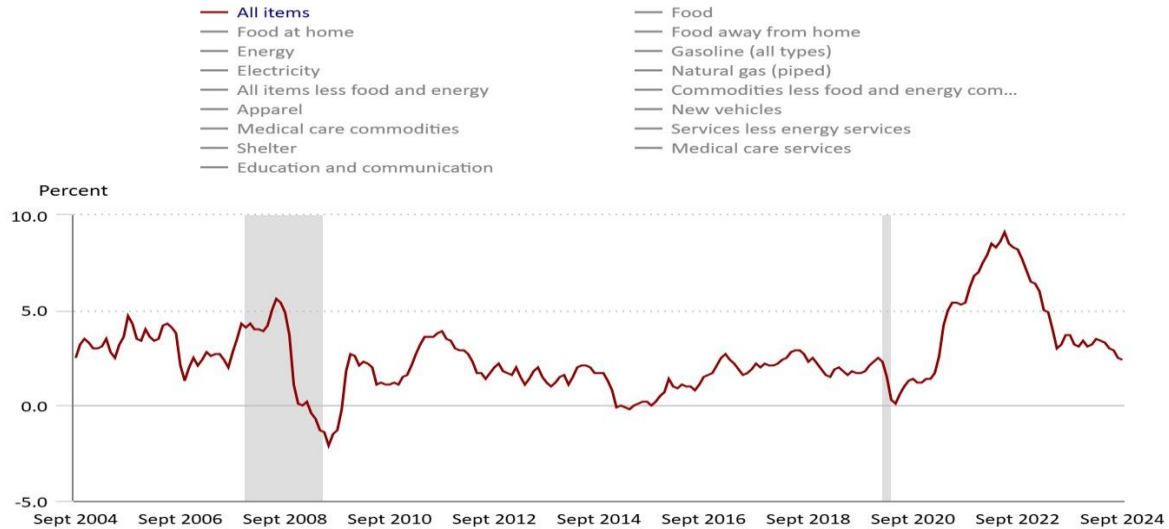
Source: U.S. Bureau of Labor Statistics.





# Insurers & Inflation: 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

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

- Increasing number of natural catastrophic events
- Wildfires
- Cost of component parts for auto repairs
- Cost of building materials for property repairs
- Increasing wages



# Insurers & Inflation: Claims Cost Inflation

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## Social Inflation:

- Changing jury attitudes with larger sums awarded in tort cases
- The growing availability of third-party litigation funding
- Additional capital also leads to increases in legal advertising by plaintiff lawyers
- Social sentiment: trust in institutions has declined
- Expanding legal concepts



# Insurers & Inflation: Claims Cost Inflation

Social inflation has been around since 2015, according to research from [Swiss Re](#), with subsequent liability claims costs rising by 16% over the last five years – and by a staggering 57% over the past decade.



# Insurers & Inflation: Wage Inflation

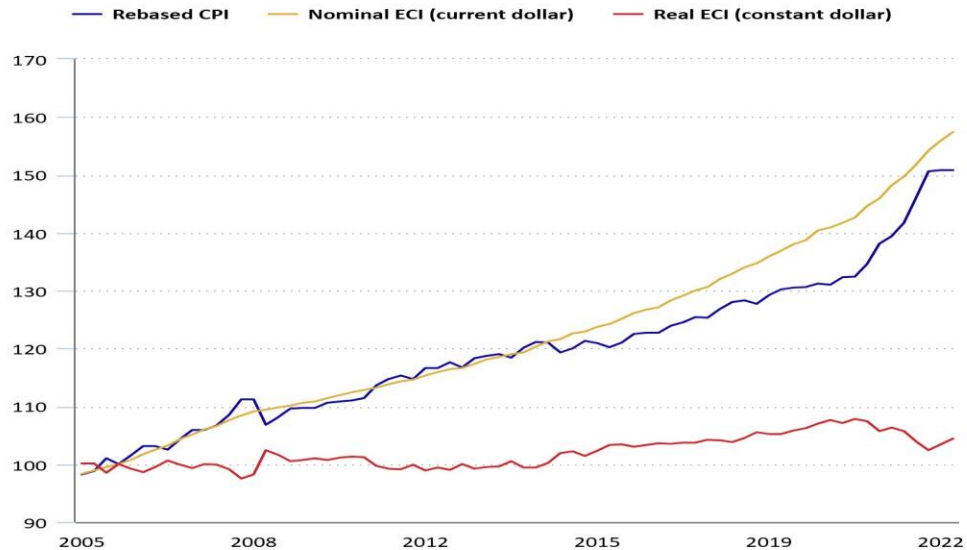
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- Related to Claims Cost Inflation covered above; but note also more of an issue in a service economy
- Impacts insurance industry as a part of the service economy



# Insurers & Inflation: Wage Inflation

Employment Cost Index for private industry wages and salaries, current and constant dollars, and Consumer Price Index, 2005–22

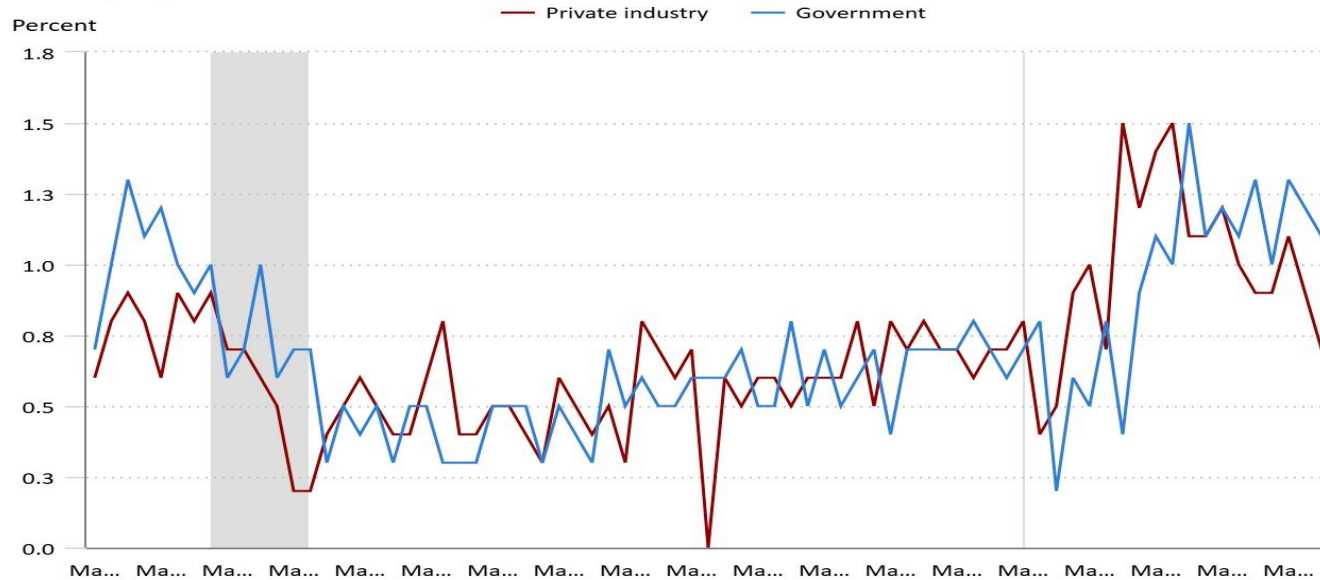


Click legend items to change data display. Hover over chart to view data.  
Source: U.S. Bureau of Labor Statistics.



# Insurers and Inflation: Wage Inflation

Compensation in private industry and state and local government, 3-month percent change, seasonally adjusted



Source: U.S. Bureau of Labor Statistics.



# Insurers & Inflation: Interest Rates

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- Federal reserve reducing rates to maintain economic activity with inflation seemingly under control
- Cost to insurance companies of raising capital in bond market decreases with lowered interest rates
- Currently inflation seems to be under control by Fed standards





# Inflation: What can Insurance Companies do about it?



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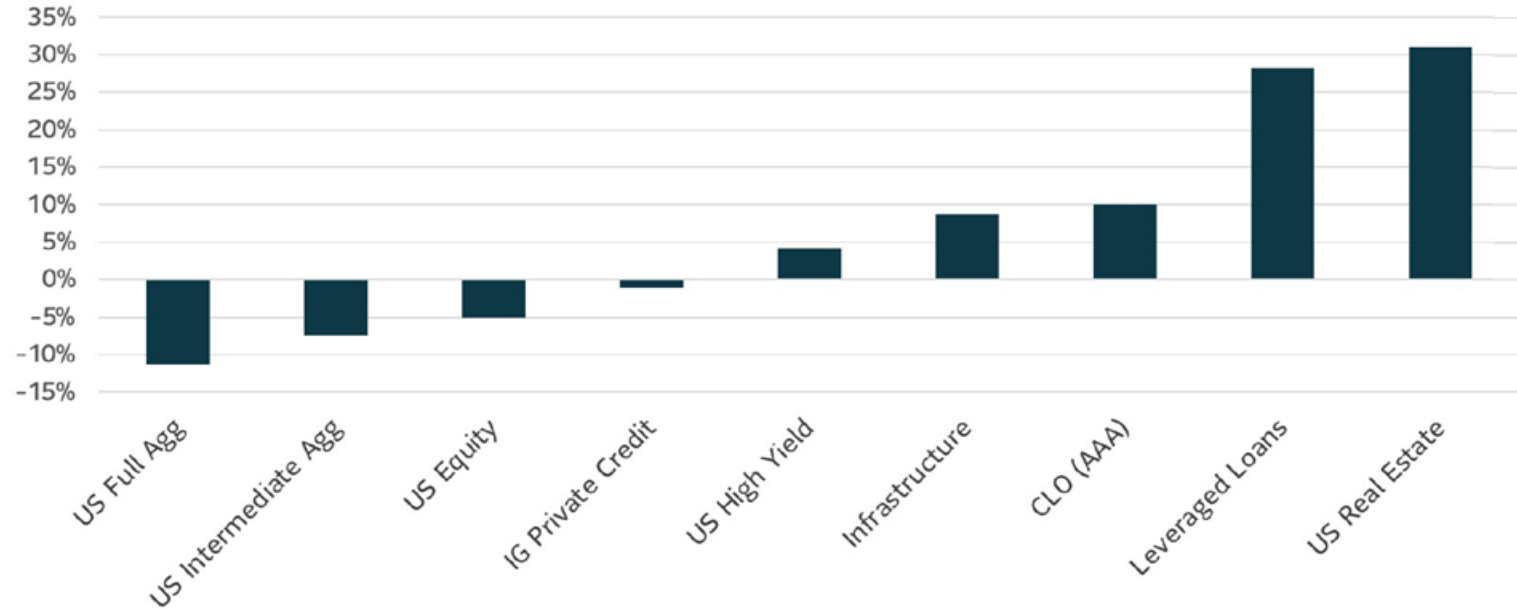
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- Reserving
- Investment
- Pricing
- Portfolio management

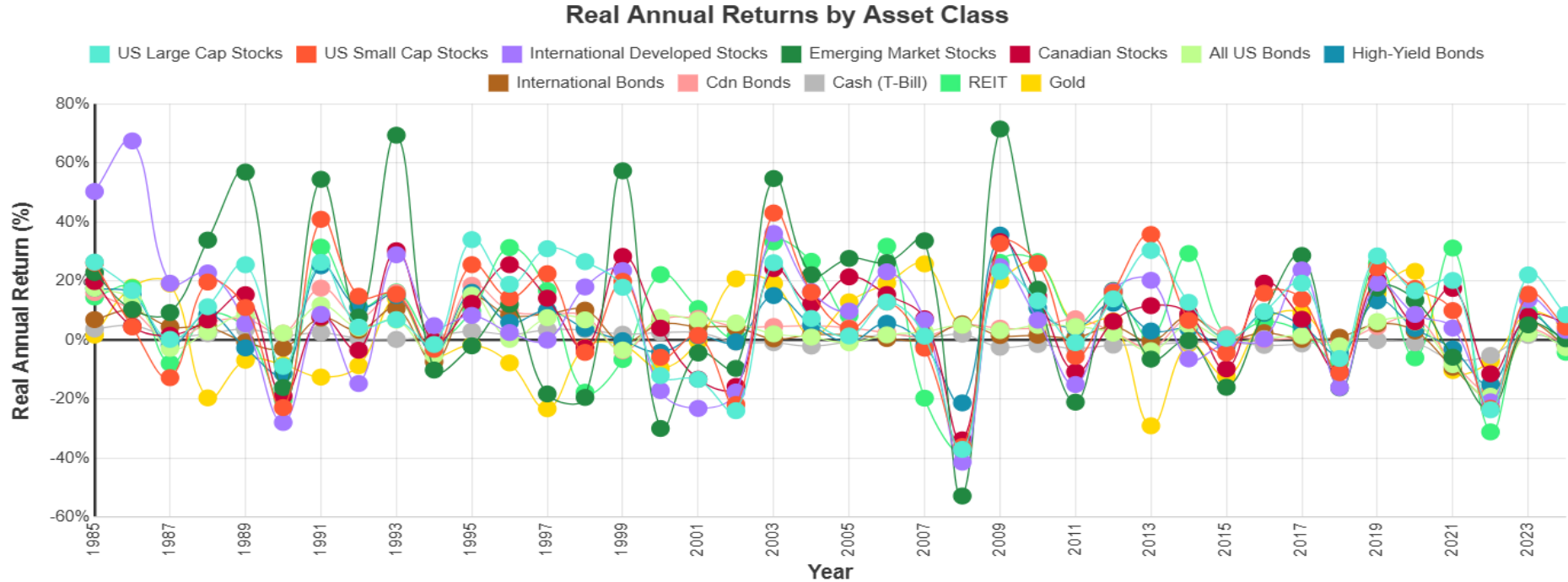


# Inflation: What can Insurance Companies do about it?

## Investment - Correlation to CPI:



# Annual Returns by Asset Class



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# Questions?



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