

How To Protect Your Business Against Social Inflation



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Introduction

When the price of insurance coverage increases because of what is going on in the world, it's called social inflation—and it's happening now. While we can't control it, understanding what causes social inflation is the first step to protecting your business from its repercussions.

Causes of Social Inflation

Today's social inflation can be traced back to the 2008 financial crisis and centers on litigation. Here are three major drivers of social inflation in the past decade:

1. Distrust of big business

From policy to public sentiment, society's general disdain for large corporations fuels more than social media rants. Its impacts can be seen everywhere from jury verdicts to rollbacks of tort reforms.

When jurors blame problems in the economy and income inequality on big businesses, they tend to side against companies and award larger claims to plaintiffs. Large-scale data breaches, highly publicized mergers, and political movements all contribute to anti-corporate sentiment.

Many states enacted tort reforms in past decades to reduce frivolous litigation and cap settlements—but these reforms are going away. The result is a climate that makes it easier to sue companies and win large settlements, thereby driving up the costs of claims and coverage.

2. Increased litigation

Another impactful trend is litigation funding. In the past, high attorney fees deterred plaintiffs from pursuing trials. Today, third parties can cover the costs of litigation in exchange for receiving a portion of the settlement. Litigation funding leads to more lawsuits that go further and last longer.

3. Massive verdicts

All of this adds up to the normalization of huge settlement awards by juries. As juries decide to hold businesses accountable and cultural sentiment assumes big corporations can afford anything, multimillion—or even multibillion—dollar settlements have become usual and expected.

Mitigating Your Risk

Working with your insurance broker, you can take steps to help safeguard your business against the effects of social inflation.

An Excess policy can be a good first step. Commercial Excess insurance provides coverage beyond the limits of your other policies so you can be prepared for large lawsuits.

Employment practices are especially susceptible to social inflation trends. Updated and sound policies on sexual harassment, workplace violence, and other issues can go a long way toward protecting your business from claims. You can also purchase standalone coverage for employment practices liability.

It's also vital to maintain open communication and consultation with your insurance agent or broker to keep ahead of the constantly changing market. You can't control social inflation, but the right partner can help you proactively manage your risk and ensure your business is always prepared.

For more information and guidance, contact your VGM Insurance Account Manager or contact us today at info@vgminsurance.com or 800-362-3363.

