

In The Know: Social Inflation and the Increasing Cost of Large Jury Awards



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Introduction

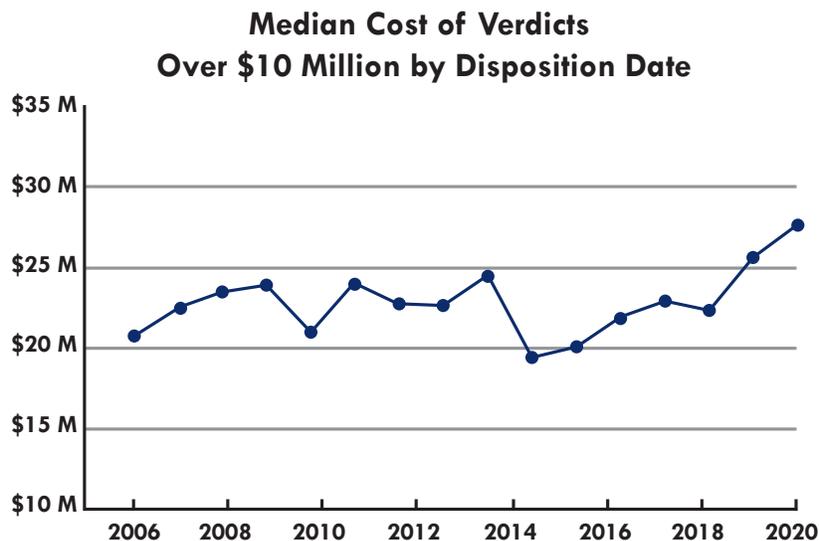
From 2015 to 2020, the median cost of a jury award over \$10 million increased by 35%, from \$20 million to \$27 million, according to Advisen’s loss database.

A jury award of more than \$10 million is considered a “nuclear verdict” within the insurance industry. The rise in nuclear verdicts has many insurers worried about so-called “[social inflation](#).”

Impacts of Social Inflation

Social inflation is a term used to describe increased loss costs stemming from claims far more severe than what could be anticipated under the usual scope of economic inflation and claims trends. It is thought to be the result of litigation funding, an erosion of tort reform, negative public sentiment toward large businesses and corporations, and jury desensitization to large awards.

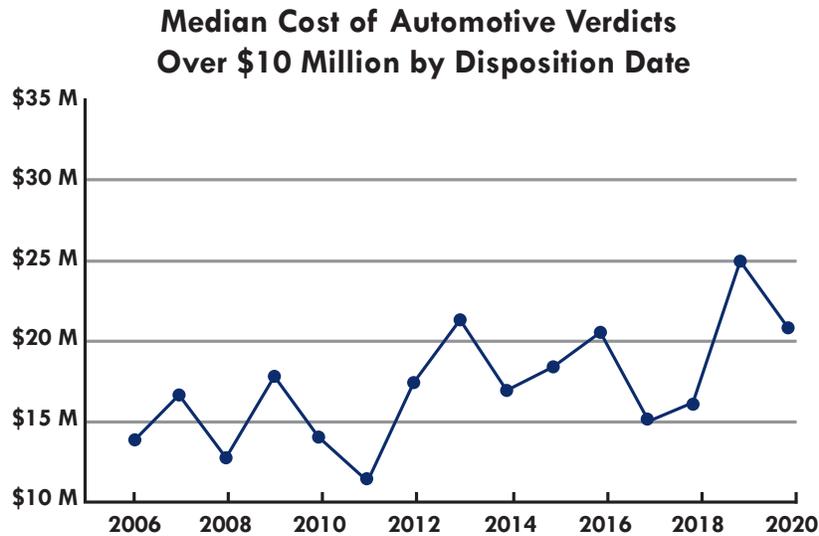
According to Advisen loss data, the median cost of awards over \$10 million remained in the low- to mid- \$20 million range from 2005-2018, before rising in 2019 and 2020.



The increase seen in 2020 may be due to a data lag and will likely moderate as more cases are added.

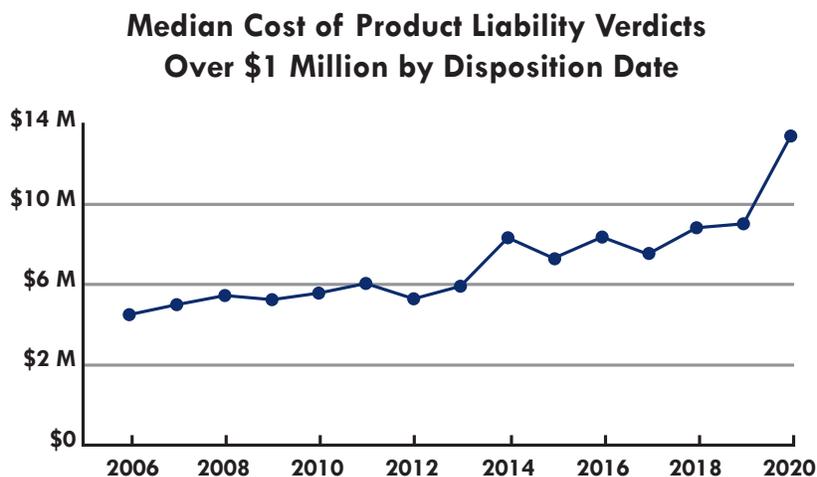
Commercial Auto Trends

Jury verdicts for commercial auto losses over \$10 million showed a gradual increase from 2010 to 2013—with a low of \$12 million and a high of \$22 million—before rising dramatically in 2019, according to Advisen loss data. Nuclear verdicts are a primary concern for transportation companies and a factor in insurance rates. Preliminary data for 2021 shows a dramatic increase over the prior years, although this will likely moderate as more losses are added.



Product Liability Trends

Product liability verdicts have also been increasing. Advisen data shows the median cost of product liability verdicts over \$1 million rising steadily from 2006 to 2019, with a sharp jump in severity in 2020 to pass the nuclear verdict threshold.



Impacts of COVID-19

The impact COVID-19 will have on social inflation is still unknown. Some experts believe negative sentiments expressed toward insurers over pandemic-related coverage could lead to increasingly severe verdicts. Others believe the job opportunities presented by large corporations will lessen the negative sentiment expressed toward them by juries in the aftermath of a COVID-19-related recession. It's important to note that not all jury verdicts are final. Some large verdicts are appealed and overturned; therefore, the loss severity of recent cases may be subject to change.

For additional risk management resources, and to ensure your business is prepared for the impacts of rising jury verdicts and social inflation, reach out to your VGM Insurance Account Manager, or contact us today at info@vgminsurance.com or **800-362-3363**.



*Advisen's loss data is curated from a wide variety of public sources. Our collection efforts focus on larger and more significant cases. For this reason, the figures in this article may not be fully representative of all cases of this type.

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