

UNDERSTANDING RISING INSURANCE RATES

It's no secret that your customers' insurance rates are going up and that economic inflation is a huge part of that. In fact, it has hit a 40-year high, affecting everything from eggs to microchips to wages. But insurance rates can't adjust to inflation in real time — even as costs begin to decline in some sectors, insurance rates take time to catch up to the current market.

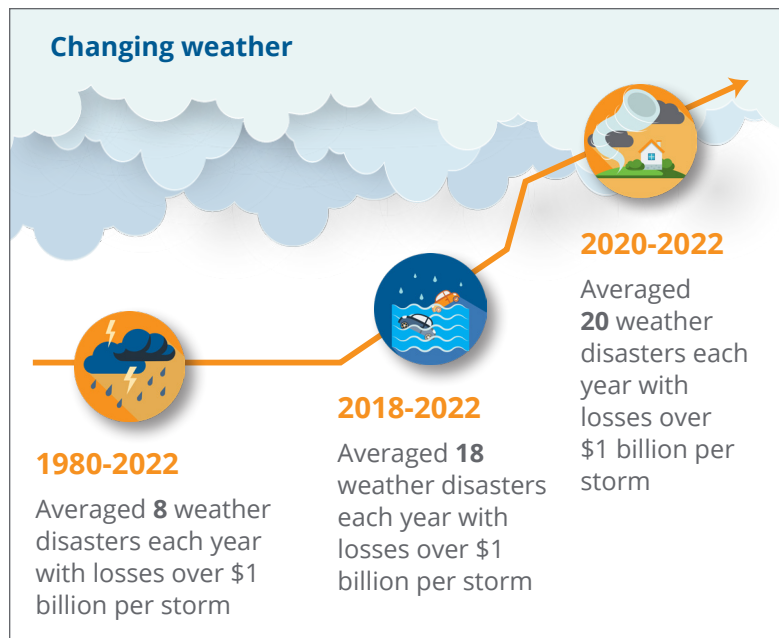
And they'll need to catch up for the long-term health of the P&C industry. In 2022, P&C carriers' combined ratio soared to 108.2 from 102.7 in 2021.¹

In addition, a confluence of global forces like catastrophic weather, war, and economic fallout from the pandemic create uncertainty and not only spur inflation but exacerbate it. And all those forces contribute to the increased frequency and severity of claims.

Here are three key factors that contribute to the rising number of claims insurers' see and the inflationary pressures that contribute to the rising costs of those claims.

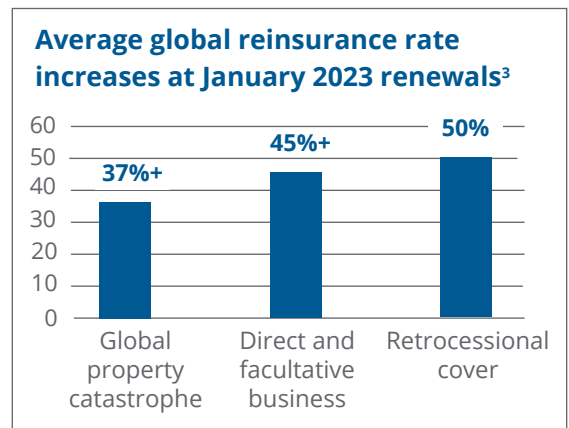
1 WEATHER

Climate change events and their accompanying destruction have created record losses. 2022 was the fifth-largest loss year on record, and 75 percent of insured losses were in the United States. Five events in 2022 resulted in losses greater than \$10 billion.²



2 REINSURANCE COSTS

Catastrophic weather events and inflation drive up the cost of reinsurance, creating a waterfall effect. This resulted in massive reinsurance rate increases at January 2023 renewals. Both primary insurers and reinsurers (who not only sell reinsurance but buy it) need to readjust pricing; customers will see the effect. When Grinnell Mutual's own reinsurers raise costs, or pull out of the property market altogether, that affects not only our reinsured mutuals' rates (which then affects their own property policyholders), but direct lines' rates, too.



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¹AM Best, "Best's Market Segment Report: Volatile Weather, Rising Personal Auto Losses Drag on U.S. P/C Insurers' 2022 Results," March 7, 2023

²National Oceanic and Atmospheric Administration (NOAA) National Centers for Environmental Information (NCEI), "U.S. billion-dollar weather and climate disasters in historical context," Jan. 10, 2023

³Insurance Journal, "January Renewals See Hardest Property Catastrophe Reinsurance Rates in Generation," Jan. 4, 2023

3 SOCIAL INFLATION

Social inflation has become the industry buzzword. It is used to explain the rise in claims' costs above economic inflation, and it's considered a major threat to insurance affordability. The term describes factors that are difficult to foresee and to mitigate.³ Those include:



Proliferation of class-action lawsuits and other lawyer- and government-driven actions (a.k.a. "runaway litigation")



Third-party litigation funding (TPLF) in which investors buy a stake in lawsuits in return for a share in the settlement



Outsized jury awards (a.k.a. "nuclear verdicts")



Rollbacks of tort reforms intended to control costs and overturn statutory limits on non-economic damages

"The insurance industry is being hammered by increasing input costs, natural catastrophes, legal system abuse, and resistance in some states to adequate rates. Insurers suffered a 14.1 percent increase in incurred losses ... contributing to a more than \$76 billion contraction in insurers' surplus at a time when loss exposures are rapidly growing. In 2023, insurers are faced with a significant challenge to close the rate gap... ."

— Robert Gordon, senior vice President, Policy, Research, and International, American Property Casualty Insurance Association (APCIA): "Underwriting Losses Soar, Net Income Shrinks for P&C Insurers in 2022," March 28, 2023



³ Insurance Information Institute (Triple-I), "What can we do about social inflation?," Aug. 18, 2022



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