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An overview of social inflation in the US property and casualty insurance industry in 2025*

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Abstract. We propose an overview of social inflation in the US P&C insurance industry. We present the definition and origin of social inflation. We review the main motivations behind social inflation and describe its growth over time and its importance in 2025. We discuss how insurance and reinsurance industry and governments can mitigate the impact of social inflation in the future.

Keywords: Social inflation, US P&C insurance industry, definition of social inflation, origin of social inflation, growth of social inflation, importance of social inflation, impact of social inflation

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1 Introduction

In recent decades, the United States (US) property and casualty (P&C) insurance industry has escalated in complexity as a result of unprecedented litigation activity. According to the Swiss Re Institute (2024a), the cost of P&C claims has outpaced the economic inflation rate in the US, peaking at 7 percent in 2023. Another study by the US Chamber of Commerce Institute for Legal Reform (McKnight and Hinton, 2024) revealed that total tort costs grew at an average annual rate of 7.1 percent between 2016 and 2022, outpacing both the inflation rate and national GDP growth, which averaged 3.4 percent and 5.4 percent, respectively. The same upward trend can be seen in commercial and personal liability, which experienced average annual growth rates of 8.7 and 3.9 percent, respectively, throughout that period. This phenomenon challenged established actuarial theories on risk exposure factors within the insurance sector. Industry experts believe that this superimposed inflation stems from the convergence of evolving social patterns and standards, jurisdiction-specific legal infrastructure and proceedings, and litigation trends (Oh, 2020). Experts have gradually embraced the notion of social inflation (Kelley et al., 2018; Pain, 2020; Oh, 2020; Wellington, 2023; Dixon et al., 2024) to frame and capture these underlying factors that propel claim costs upward. As the debate continues, consensus on this phenomenon is lacking; a few analysts challenging this perspective argue that social inflation is a concept backed by little to no compelling evidence. They contend that it is formulated by insurance industry professionals in order to rationalize the hike in premiums (Hunter et al., 2020; Doroshov et al., 2023; Klein, 2023). Even so, the supportive research regarding this issue seems to provide evidence that changes in social and legal standards are driving deviations in the expected loss distribution, significantly influencing operations and pricing dynamics within the insurance industry (Oh, 2020).

In this paper, we intend to address the definition, drivers, scope, and costs of social inflation in the US P&C insurance market by examining empirical data and scholarly evidence that capture the breadth and repercussions of this phenomenon. Overall, our contribution endeavors to shed light on the phenomenon of social inflation and suggests mitigating measures to restrict the underlying risks. These insights will be relevant to insurers and

reinsurers in their risk assessment processes and pricing formulation, as well as to legislators and the society.

The remainder of this paper is structured as follows. Section 2 analyzes the definition of social inflation. Section 3 traces the history of social inflation from its origin in the 1970s to its resurgence from 2010 to the present. Section 4 explains the motivations behind social inflation, specifically the underlying factors that drive this phenomenon. Section 5 illustrates the growth of social inflation, providing insights into the magnitude of its underlying causes, according to readily available historical data. Section 6 documents the importance of social inflation in 2025, with an emphasis on the implications and current relevance of this phenomenon. Section 7 discusses how to manage social inflation from both the insurers' and reinsurers' standpoint, and how governments could intervene to address the phenomenon. Section 8 provides a conclusion consolidating the implications of social inflation and explores potential mitigating measures that could be undertaken to counter the adverse effects of this phenomenon within the US property and casualty insurance industry. We also emphasize the need for more research on this important social cost. Abbreviations are presented in the last section and additional information is provided in an Online appendix.

2 Definition of social inflation

The term social inflation is multifaceted. Fundamentally, it refers to the sustained increase in insurance claims costs, in conjunction with incurred losses, that exceeds standard projections based on general economic inflation trends. This superimposed inflation explicitly encompasses the inflationary pressures anchored in non-economic factors such as evolving societal attitudes toward litigation, illustrated by a higher propensity to file claims, and changes in the general stance on corporate social responsibility driven by demographic and political transitions. In other words, this phenomenon is mainly related to shifts in legal and social conventions dictating which party should bear the costs associated with legal claims arising from unexpected events (Pain, 2020).

At a more granular level, additional influences such as insurance contractual clauses, along with procedural and litigation funding industry practices, have played a role in both the emergence and escalation of this trend. Specifically, Assignment of Benefits¹ (AOB) agreements represent a key feature of insurance policy structure that is particularly prone to abuse from predatory third parties such as contactors, third-party adjusters and attorneys (Klein, 2023), mainly in property insurance. This is because AOB allows third parties to interfere with claims processes. A study conducted by the Florida Office of Insurance Regulation (FLOIR) revealed that the number of AOB-related cases increased from 408 in 2000 to more than 28,200 in 2016 (Poll, 2018; Florida Office of Insurance Regulation, n.d). For claims processed with AOB agreements, the FLOIR estimated the average severity to be approximately 85 percent higher than claims handled directly by policyholders, without third-party benefit assignment. The Insurance Information Institute (III) has more recently documented a 94-percent increase in claims filed through AOB agreements between 2013 and 2018, which ballooned from 79,000 to 153,000.

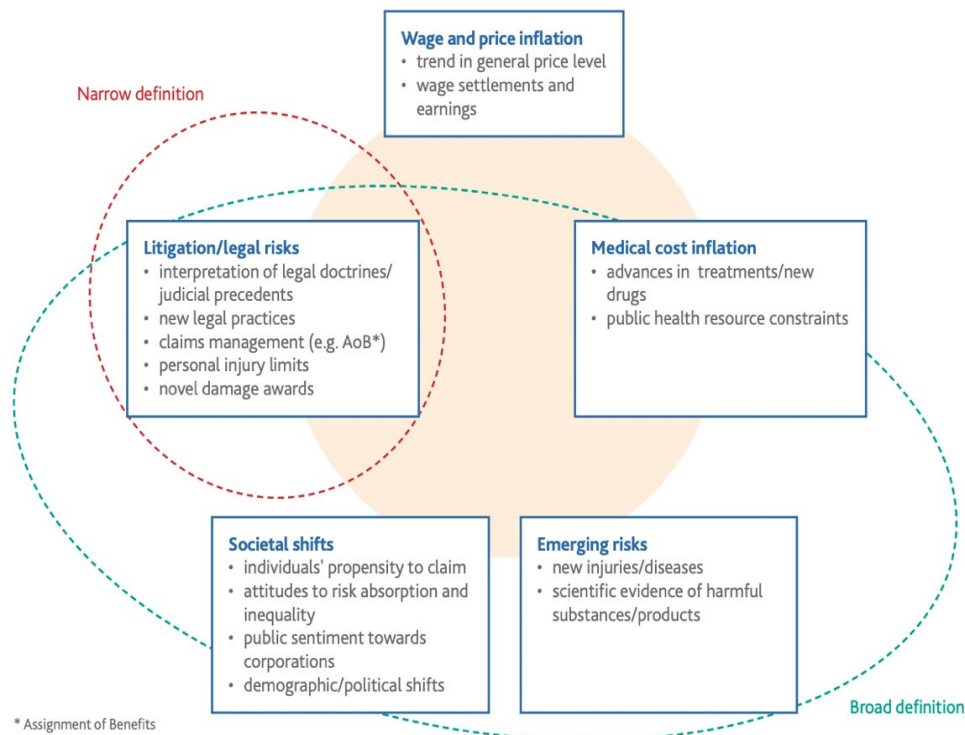
In addition, state-specific statutory rules governing damages give rise to discrepancies in legal outcomes, often impacting the predictability and volatility of damage awards. Across the US, the existence and extent of caps on personal injury cases vary depending on the state law. As of February 2024, a few states such as Arizona, Arkansas and California had constitutional provisions that banned caps on compensatory and punitive damages in such cases (Thomson Law Injury Lawyers, 2024). Overall, these legislative frameworks on damage awards in comparable jurisdictions, coupled with the growing inclination to favor plaintiffs, accentuate social inflation by creating case law and setting precedents that support higher compensation for claimants. This observable upward trend in damage awards, especially in personal injury cases (Swiss Re Institute, 2024a), while not directly linked to insured losses, increases the likelihood of extreme judgments.²

¹ Assignment of Benefits (AOB) is an insurance provision allowing a contract to assign a claim payment from the insurer directly to a third party.

² Although the terms award, verdict, and judgment might seem interchangeable, each marks a separate stage in the progression of a case. An award is an amount of damages a jury decides should be paid after a trial. A decision that has the status of an award [or a verdict] can be challenged or appealed to a national court (Clark,

Though generally confined to cost escalations driven by litigation dynamics (Kelley et al., 2018), social inflation also includes costs related to emerging societal hazards and scientific advancements (Figure 1). In particular, claims severity tends to rise in the presence of significant public health and safety concerns, such as those due to chemical, environmental and consumer goods hazards, pandemics, accidents, and infrastructure failures, as the extent of damages and losses suffered by policyholders or by affected third parties increases. In addition, as new treatment and medications are developed, and as healthcare capacity becomes limited, medical costs increase and inflate the value of personal injury and liability claims through higher compensatory damages, thereby contributing to amplifying the effects of social inflation (Pain, 2020; Heim, 2021).

Figure 1: A stylized typology of social inflation



Source: Pain (2020)

2019). A judgment is a formal, irrevocable and final court decision that makes the award legally binding and enforceable.

3 Origin of social inflation

Social inflation is not a recent development (Heim, 2021); it is embedded in historical precedents. The concept was explicitly documented by Warren Buffett in 1977, in his chairman's letter addressed to the stockholders of Berkshire Hathaway. In this document, he forecast a monthly one-percent rise in costs within the insurance sector. Buffett attributed this increase to economic and social inflation, which he defined as "a broadening definition by society and juries of what is covered by insurance policies" (Buffett, 1978).

The term social inflation was then coined to highlight transforming social viewpoints and behaviors influencing the legislative and judicial environment at the time in the US. This environment fueled a growing wave of lawsuits related to asbestos exposure, with direct consequences for insurers. The first wave of social inflation materialized in the US during the mid-1980s liability crisis, when shifts in legislation and case law drove an expansion of the scope of tort liability. Near the end of the 1990s, the insurance sector faced a second wave of social inflation as legal precedent made mass tort claims more accessible, and medical malpractice lawsuits rose accordingly, together with substantial jury awards against physicians. As mitigating measures, tort reforms such as cap noneconomic and punitive damages were enacted, at both federal and state levels, to constrain class actions, intangible awards, and attorney fee structures.

In 2010, PartnerRe offered a broader interpretation of social inflation in a research-based report, suggesting that it was an outcome of several contributing factors. According to the international reinsurer, the primary causes behind this occurrence include the growing influence of social media on legal proceedings, greater leniency in the treatment of claims by workplace compensation panels, rising attorney participation in claims litigation, social developments that influence jury members and lead to exceptionally high jury awards, escalating public skepticism toward large corporations, and growing income inequalities.

More than four decades after its introduction, the concept of social inflation has regained prominence in discussions among insurance executives. Notably, leading European

providers of reinsurance such as Swiss Re, Munich Re and Hanover Re have cited social inflation, in recent years, as a significant risk to their profitability and pricing models. In a white paper issued in 2020, Munich Re acknowledges the risks emerging from social inflation and articulates its proactive approach to managing its portfolio through pricing adjustments, limits management and re-underwriting, in response to modernizing ethical standards. More recently, Hanover Re (2024) highlights that, particularly in the US, social inflation is gaining momentum and will compel insurers and reinsurers to rethink their pricing approaches and contractual terms. Several insurance institutes, including the Insurance Information Institute (2022), mentioned that commercial general, commercial and personal automobile and umbrella insurance were exposed to social inflation due to costlier legal proceedings. For these products, unforeseen rising costs threaten coverage affordability and, in the long run, availability. Yet, despite being widely recognized and referenced internationally, some experts are still disputing the existence of social inflation, a stance that could lead to persistent mispricing and inadequate reserve allocations (Pain, 2020).

4 Motivations behind social inflation

Social inflation signals the evolving societal dynamics that are amplifying insurance costs. Among these patterns, the growing expectations of corporate accountability stand out, paired with a heightened culture of litigation and higher monetary settlements. The inflationary impact of the factors driving social inflation exhibits significant cross-jurisdictional variation; its extent is contingent upon cultural norms, geopolitical and socioeconomic conditions, and legal frameworks. Although this phenomenon is more likely to manifest with greater persistence and intensity in the United States, as identified by the Swiss Re Institute (2024a), it is also becoming prominent in other Anglo-Saxon countries sharing similar legal systems such as the United Kingdom (UK), Canada and Australia, as shown in Table 1.

Table 1: International comparison of drivers for future inflation

	US	Australia	UK	Canada	Netherlands	France	Germany	Japan
Claims penetration	H	M	H	M	L	M	M	L
Income inequality	H	M	M	M	L	M	M	M
Third-party litigation funding	H	H	H	M	H	M	M	L
Contingency fees	H	M	M	H	L	L	L	L
Collective redress	H	H	H	H	H	M	M	L
Case law	H	H	H	H	L	L	L	L
Jury based	H	L	L	L	L	L	L	L

High risk

Medium risk

Low risk

Source: Swiss Re Institute (2024a).

Note: Claims penetration refers to the ratio of liability claims to GDP; *income inequality* is measured with standardized Gini coefficients based on the Standardized World Income Inequality Database.

Through various channels, the rise in socio-economic disparities fosters a legal setting in which social inflation takes root. As the share of national income accruing to large corporations has grown, particularly since the 1980s, individuals falling within the lower and middle tiers of income distribution have experienced stagnating wages and reduced economic mobility. During this period, in the United States, where income disparities were more pronounced than peer countries, anti-corporate narratives have gained traction across the political spectrum. These disparities have been exacerbated in recent years, where one-quarter of all income has been going to the top one-percent of income earners (Stiglitz, 2011). This context fueled changes in corporate responsibility perception, illustrated by a growing skepticism within the general public and the civil justice system that casts insurers and large corporations as lucrative entities, making them prime targets for liability. This shift is evident in the increasing polarization within the jury pool (Orrick, 2023), the growing body of case law, the expansion of the concept of liability, the higher claims penetration, and the introduction of plaintiff-oriented legislation aimed at putting more pressure on corporate accountability over the last two decades.

In particular, in the US civil justice system, several institutional and procedural frameworks aimed at addressing the disproportionate access to legal resources arose. One of the most consequential developments is the rise of litigation finance, which enables third-party

investors to fund lawsuits in exchange for a portion of the potential settlement or award. Moreover, the growing prevalence of contingency-based legal services enhanced legal inclusivity for low-income litigants unable to afford upfront legal costs. Collective redress and statutes supporting claimants have also emerged as critical components of the US civil justice system, aiming to balance power asymmetries and to strengthen consumer and individual protections by broadening liability standards, particularly in cases involving corporate or institutional defendants. These initiatives reflect an ongoing effort to mitigate the barriers that income inequality poses to justice, ensuring that all individuals can chance seek legal redress, regardless of their income status.

However, despite their role in lowering legal barriers for underprivileged groups, these mechanisms tend to trigger higher compensatory and punitive damages—trends that are magnified by social media advertising—, further reinforcing anti-corporate sentiment and compounding the cycle of social inflation. On the other hand, rising premium levels imposed by insurers, as a defensive reaction, amplify derogatory narratives portraying them as excessively profit-oriented and inadvertently sustain a recursive dynamic of social inflation.

The third-party litigation funding (TPLF) industry exerts a transformative influence on the civil justice system and concentrates approximately 52 percent of the global litigation funding market in the US. In a climate characterized by economic disparities, this mechanism claims to offer relief by providing alternative funding sources to bridge the gap in legal affordability (Locatelli, 2024) and sustain lengthy litigation. This multi-billion-dollar industry serves as a platform through which third-party investors and hedge funds can finance lawsuits in expectation of a fixed interest or a percentage of the litigation proceeds upon trial success. TPLF caters to a broad spectrum of stakeholders ranging from attorney firms, individual claims, and collective plaintiffs, to commercial entities. However, despite its appeal, an emerging narrative portrays TPLF as a predatory practice, where investors capitalize on the evolving patterns of public behavior and exert undue influence over litigation outcomes, often through non-transparent arrangements (US Chamber of Commerce, 2024).

The industry's potential to thrive is fueled by the high success rates and returns it delivers to investors, combined with the lack of transparency surrounding these practices. Indeed, this industry delivers lucrative returns uncorrelated to underlying economic cycles, amounting to a nearly 25 percent return on investment (AM Best, 2024) and success rates ranging between 85 and 98 percent (Swiss Re Institute, 2021; US Chamber of Commerce Institute for Legal Reform, 2022). Over five-year investment horizons, patent TPLF funds usually offer an annual internal rate of return (IRR) of approximately 20 percent, which corresponds to double or more of the initial investment (Stroud, 2023).

Moreover, the industry has evolved under minimal regulatory oversight from its early stages in the US. Consequently, in the absence of nationwide disclosure requirements (Swiss Re Institute, 2021; see Table A1 in Online appendix), such financial agreements frequently bypass detection during the course of litigation, giving rise to an underlying conflict of interest among the plaintiffs, law firms and third-party funders. The case involving Sysco Corporation and Burford Capital (US Chamber of Commerce Institute for Legal Reform, 2023a), one of the biggest actors in the industry (Figure A1 in Online appendix), highlights the limitations of TPLF, where the involvement of the funding firm conflicted with the interests of the litigant, fueling concerns over both procedural transparency and diminished plaintiff autonomy.

The repercussions of such conflicts also extend to defendants and their insurers as TPLF brings new dynamics into the legal process that diverge from conventional legal standards. Indeed, this controversial practice operates as more than a procedural tool. It exacerbates the occurrence and the cost of legal disputes. The involvement of a third-party investor, and its share in the potential compensation granted to the litigant, are inherently correlated with larger legal fees, payouts, awards, and extended durations of litigation. Hence, TPLF adds complexity and undermines fair claim resolution by introducing an undisclosed stakeholder's financial interest in the proceedings.

A report written by Westfleet Advisors (2022) indicates that the US litigation funding market grew by 16 percent in 2022, with the demand for financing continuing to rise and expected to remain strong. In parallel to the US, similar trends in social inflation risks

related to the TPLF industry are observed in other jurisdictions such as Australia and the UK—where its modern form initially emerged (The Practice, 2019; Locatelli, 2024)—and the Netherlands. Overall, the combination of the regulatory void, the rapid growth of TPLF, and the incentive for claimants to undertake lengthy and speculative mass torts position TPLF as a high-risk contributor to social inflation in the US (Figure A2 in Online appendix).

At a fundamental level, similar to TPLF, contingency fee arrangements³ are intended to democratize access to the legal system and lower the economic barrier to litigation for plaintiffs who may not be able to afford upfront legal fees. They are particularly common in personal injury, medical malpractice and corporate collections litigation, in which legal representatives are entitled to a share ranging from 20 percent to 50 percent of the recovered amount upon success. However, by turning legal representation compensation into a variable cost contingent on performance rather than a fixed remuneration, these agreements exert a strong influence on litigation practices and, by extension, on the cost dynamics driving social inflation in the property and casualty insurance industry. In fact, they incentivize the initiation of a wider variety of legal actions, including those typically perceived as carrying a high degree of uncertainty or yielding limited monetary value. The aggregate effect is inflationary pressure on claims frequency and severity, particularly in lines of business such as general liability, commercial automobiles, and medical malpractice.

Moreover, by enabling the transfer of the plaintiffs' risk of losing the case to the lawyer, the structure of contingency fee arrangements provides an incentive for attorneys to seek claim success vigorously and aim for the highest possible recoverable amount. This motive ultimately alters attorneys' behavior in ways that exacerbate adversarialism. In commercial and insurance cases, plaintiffs are increasingly relying on the use of litigation strategies, such as reptile theory (Abraham, 2022), that reframe the narrative from the facts of the case to emotionally compelling, community-centered safety concerns. This litigation approach

³ Contingency fee arrangements involve a contract stipulating the conditions according to which attorneys should be compensated as a percentage of the settlement awarded to the plaintiff.

eventually increases the potential for greater punitive damages as a measure to defend public interests, and fosters a reinforced sense of corporate accountability.

Among the structures that encourage legal participation in the United States, collective redress mechanisms constitute a strategic approach for individuals and organizations pursuing identical concerns to collectively sue a defendant and address widespread claims (Bacharis, 2024).

By nature, these initiatives result in a higher volume of claims being filed and promote larger legal costs and settlements for the insurer, particularly when punitive damages are involved. This factor thereby plays an additional role in driving the phenomenon of social inflation in the US (DAC Beachcroft, 2024).

Collective redress takes several forms, with class actions and mass torts being the most common. General historical data related to class actions reveal that, in the US, approximately forty percent of the companies have integrated class action waivers in their procedures. Growing reliance on arbitration agreements for risk mitigation signals the heightened relevance and legal exposure stemming from class actions. However, some firms are restricted from applying this provision due to regulatory barriers enforced in their respective jurisdictions.

Beyond the US, similar trends in social inflation risks related to the legal landscape are expanding in other Anglo-Saxon jurisdictions that share common law systems. Tort law in Europe differs significantly from that in the US, primarily due to the absence of juries and the influence of civil law traditions. In most European countries, tort cases are adjudicated by professional judges rather than juries. However, class action lawsuits are growing rapidly in Europe.

For the past decade, the US civil justice system has been plagued by inflated compensatory and punitive damages, particularly in personal injury cases. Together with plaintiff-oriented judicial developments, the growing anti-corporate bias, that had redefined the law, created

conditions unfavorable to defendants and promoted the proliferation of “nuclear verdicts” (Orrick, 2023).⁴

This trend unfolds unevenly and is reflected by state-by-state divergence in procedural rules, thresholds for damages, availability of class actions, statutes of limitations, and the regulatory acceptance of third-party litigation funding. Some jurisdictions referred to as judicial hellholes⁵ (American Tort Reform Association, 2022), such as California, Florida, and New York, have introduced new bases for liability, especially in the context of corporate conduct. To illustrate this point, the example of Lemon Laws (Standley, 2024) highlights that the regulatory scope of the laws enforced varies considerably across US states in terms of vehicle eligibility, legal presumptions, warranty period and consumer protections. These statutes not only facilitate access to legal remedies in some states but also set precedents that may elevate compensation standards in similar litigation contexts. Some states such as New York and New Jersey extend Lemon Law protection—a clause protecting consumers from defective vehicles—to certain used vehicles. By contrast, states such as Texas restrict its scope to new vehicles exclusively. The case of Lemon Laws, among a few others, exemplifies how the divergent legislative frameworks recalibrate the dynamics of civil litigations and redefine the contours of liability and the resulting compensations. This variability across states not only complicates nationwide legal predictability but also incentivizes forum shopping and unequally affects civil justice outcomes throughout the country. Further, empirical evidence suggests that social inflation does not manifest at the same rate in every state, and that trial awards were specifically high in states characterized as judicial hellholes (Dixon et al., 2024).

The stochastic nature of jury awards—often disconnected from economic damages—introduces model risk, especially in the context of protracted legal proceedings. As a result, insurers are forced to adopt more conservative reserving practices and seek higher reinsurance limits, thereby escalating costs throughout the insurance value chain. As a

⁴ Nuclear jury verdicts refer to jury verdicts reaching or exceeding \$10 million.

⁵ A judicial hellhole represents “a jurisdiction where judges in civil cases systematically apply laws and procedures in an unfair and unbalanced manner, generally to the disadvantage of defendants” (American Tort Reform Association, 2022).

matter of fact, a number of reinsurers have initiated rigorous assessment and have strengthened their reserves to mitigate the legal and financial risks associated with increasingly common nuclear and thermonuclear⁶ verdicts. Notably, Swiss Re (2024) allocated an additional \$2.4 billion to its US casualty reserves during the third quarter of 2024.

The United States, operating under a common law system, relies heavily on case law, which shapes future court decisions and exacerbates the phenomenon of social inflation. In this common law framework, the role of juries in tort cases complicates efforts to regulate this phenomenon, in contrast to European countries and Japan, whose legal systems are based on civil law (Gallagher, 2025).

Taken together, these factors—the increasing societal willingness to punish corporate defendants, the innovative and incisive litigation strategies, common law systems and the expansion of tort law—have created fertile ground for social inflation to take root. In the following section, we assess how these drivers of social inflation have translated into measurable changes within the insurance landscape over time.

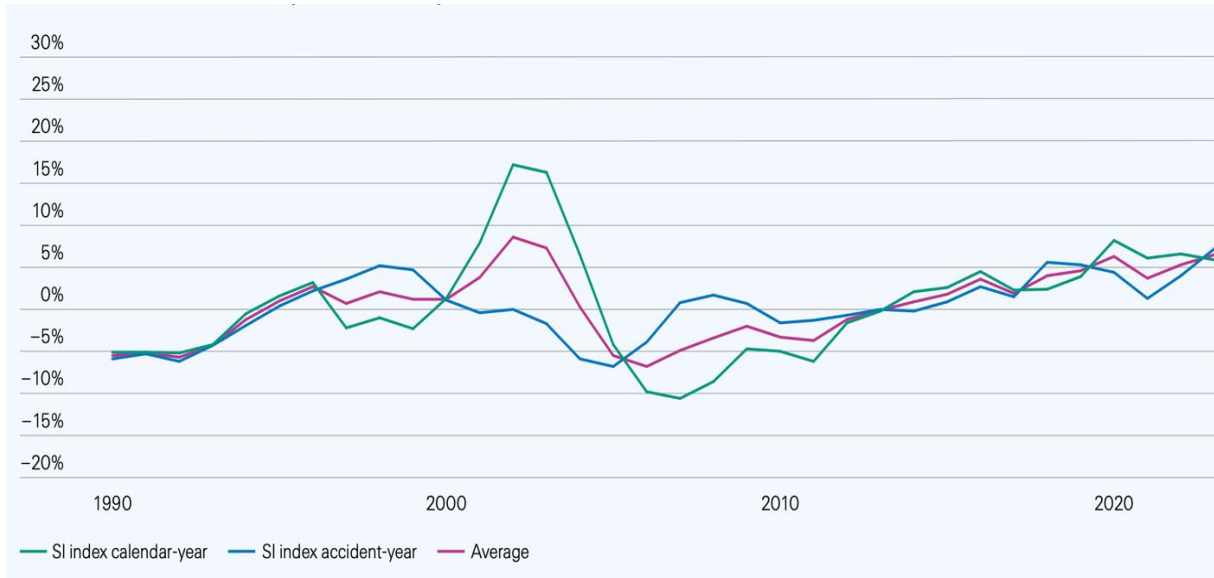
5 Growth of social inflation

The past decade has been characterized by a pronounced escalation in social inflation within the US property and casualty insurance market. Comprehensive quantitative evidence is not readily available to accurately measure the behavioral tendencies underlying the notion of social inflation. However, its growth can be captured by a newly established index, the noticeable prominence of anti-corporate bias, the surge of tort filings in state court and the prevalence of nuclear verdicts and changes in claims severity.

⁶ Thermonuclear verdicts is a term coined to characterize verdicts exceeding \$100 million.

5.1 Social inflation index

Figure 2: US social inflation index, accident-year, calendar-year and average, 1990–2023



Source: Swiss Re Institute (2024a).

Given the abstract nature of the underlying dynamics of social inflation, a standardized and widely recognized index has yet to be developed. In the absence of any prior efforts to provide a measurable framework for these evolving patterns that reshape the insurance landscape, the Swiss Re Institute (2024a) pioneered the construction of a social inflation index (SI)⁷ presented in Figure 2. They derived its calculation from the working definition that describes social inflation as claims severity growth, isolated from economic inflation. To approximate claims severity⁸, they subtracted exposure growth and changes in claims frequency from claims growth.

Overall, the Swiss Re Institute (SRI) depicts a relatively concerning outlook for this phenomenon, estimating that, on average, social inflation rose by 5.4 percent annually between 2017 and 2022, in the US, while economic inflation increased by 3.7 percent (Swiss Re Institute, 2024a). Consistent with assertions by industry stakeholders who have

⁷ Social inflation = claims severity growth – economic inflation.

⁸ Claims severity = claims growth – exposure growth – frequency changes.

identified such inflationary pressures since the late 1990s, Figure 2 shows a positive index and a peak around 2003. Thereafter, the index turned negative and continued to trend below zero for nearly a decade. From 2014 to 2023, the social inflation index gradually rebounded, transitioning from zero to consistently positive values, and reaching 7 percent on average. This observation reflects how broader social factors have been driving up claim costs beyond traditional economic inflation over the latest ten-year span.

Beyond the index used by SRI to model social inflation, there is other evidence that indirectly charts the ways in which this phenomenon evolved over the past two decades. In particular, the trend in tort verdicts and the frequency of awarded damages arising from them provide further insights.

5.2 Growing verdicts and plaintiff win rate

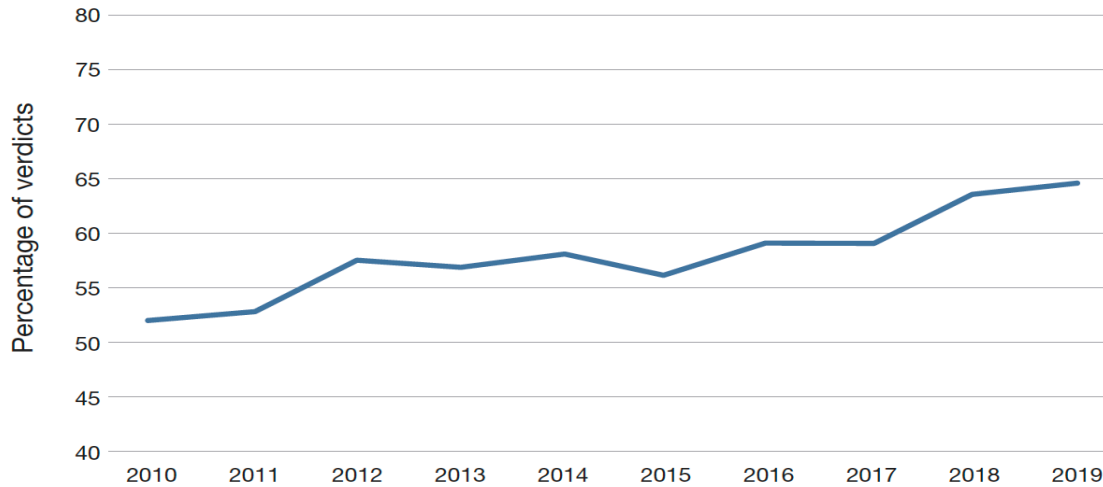
Without considering the context of the damages, the size of a verdict, in isolation, does not inherently imply deviation from the norm. However, it provides a useful signal of extreme or inflated awards. Specifically, the conjunction of plaintiff success rate, paired with award amounts, could serve as a potential proxy for social inflation.

Trends in trial awards and plaintiff success rate were analyzed to find evidence of social inflation in a study conducted by Dixon et al. (2024). They collected 26,114 personal injury and wrongful death (PI/WD) tort verdicts, ranging from 2010 to 2019, from Law.com VerdictSearch, a leading platform featuring verdict and settlements data.

Dixon et al. (2024) examined the share of tort verdicts won by plaintiffs across this period in order to provide a context for interpreting award amounts. The plaintiff win rate for all PI/WD verdicts saw a moderate increase of 55 percent between 2011 to 2012, from an initial 52.5 percent, followed by a more recent rise from 2015 to 2019, reaching a nine-year high of approximately 65 percent, as shown in Figure 3. The plaintiff win rates are notably higher for cases involving private automobiles, commercial trucking and other commercial vehicles, spanning from 64 percent to 69.1 percent, distinctly above the 57.5-percent observed across all verdicts (Table A2 in Online appendix). The observed increase

in win rates could reflect actual social inflation, but could also be partly attributable to factors such as changes in verdict reporting practices over time.

Figure 3: Plaintiff Win Rate for All PI/WD Tort Verdicts in Dataset



Source: VerdictSearch, Dixon et al. (2024).

Note: N = 26,114 verdicts.

With respect to trial awards, Dixon et al.'s (2024) findings suggest that, across all cases categories, there is statistically significant evidence that awards expand annually at a compounded rate ranging from 5.1 to 8.8 percent between 2010 and 2019. For instance, for organizational defendants cases, trial awards rise at a compounded annual growth rate (CAGR) of 7.3 percent, from 2010 to 2019 while for cases involving private automobiles, the compound annual growth rate stands at 8.3 percent for the same period. Holding case attributes constant, the CAGR is 7.6 percent. The growth rate began to rise at some point between 2014 to 2018, across the different case categories, further demonstrating that trial awards have been on an upward trajectory within the last decade. The regression analysis presented in Table 2 indicates that, over the study period, both the commercial trucking and private automobile segments, along with organizational and non-organizational defendants, faced the greatest exposure to the increase in trial awards. The post-2014 increase in plaintiff success rates combined with the rise in damages awarded points to three plausible interpretations, the first of which involves judicial shifts favoring plaintiffs. An alternative explanation may lie in the possibility that stronger cases are more likely to

be brought to court. A final possible interpretation could be increased access to external litigation funding, potentially resulting in more robust case presentation.

Taken together, these findings strongly imply the presence of factors promoting social inflation, notably within the area of commercial auto liability, as similarly reported by insurance and reinsurance experts (Insurance Research Council, 2020; Lynch and Moore, 2022; Araullo, 2024).

Table 2: CAGRs for PI/WD Inflation-Adjusted Trial Awards per Plaintiff

Case type	CAGR 2010-2019	Year growth Rate increased	CAGR (%)	
			Pre-dividing point	Post-dividing point
All plaintiff wins	7.6***	2014	-3.8*	8.0***
Organizational defendants	7.3***	2016	1.2	8.7***
Commercial trucking	8.5***	2018	-0.1	19.1***
Other commercial vehicles	5.1***	2017	2.8	6.2***
Medical malpractice	5.7**	2018	1.0	12.4***
Other cases against organizational defendants	8.8***	2014	-4.3	9.6***
Non-organizational defendants	8.3***	2014	-2.5	8.6***
Private auto	8.3***	2014	-0.7	8.4***
Other cases against non-organizational defendants	8.1***	2016	-4.2	9.3***

Source: Dixon et al. (2024)

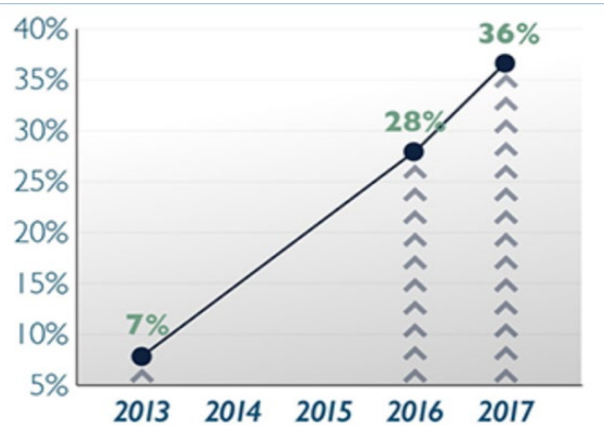
Note: N = 15,017 trial awards. * = statistically different from 0 with 90-percent probability; ** = statistically different from 0 with 95-percent probability; *** = statistically different from 0 with 99-percent probability.

5.3 Third-party litigation funding

Third-party litigation funding has gained traction and radically revolutionized the dynamics of the legal industry throughout the past decade in the United States. Frequently referenced and criticized for contributing to rising litigation costs (Swiss Re Institute, 2024b), this industry's development since its inception can serve as an additional indicator of the expansion of social inflation.

According to Evans and Klevens (2017), 36 percent of law firms in the US adopted this practice in 2017, up by 8 percent relative to the prior year, and by 29 percent since 2013 (Figure 4).

Figure 4: Litigation funding use in US law firms, 2013-2017



Source: Daily Report Law.com (2017), reported in Esquire Deposition Solutions (2017)

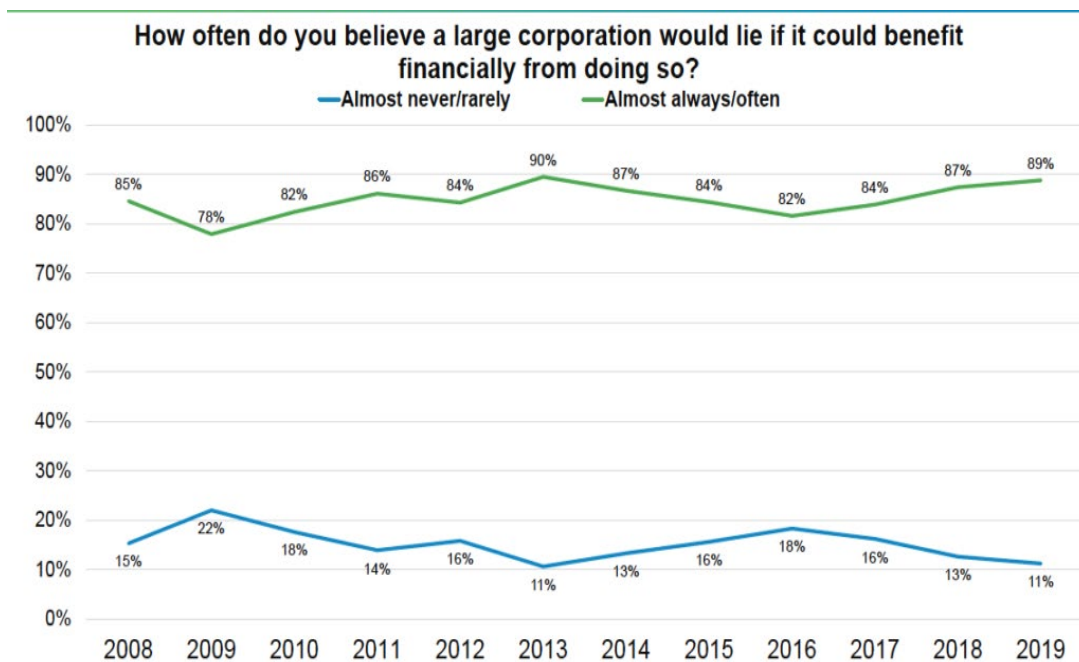
In 2020, law firms' reliance on TPLF was primarily driven by financial constraints. However, according to a survey conducted by Lake Whillans & Above the Law (2020), an estimated 6 percent of the motivations behind the use of TPLF could be attributable to other factors, some of which could be considered potentially unjustified. Analysis of data from 2016 and 2020 suggest that the involvement of TPLF in tort lawsuits is associated with a decline in the compensation share granted to the plaintiffs of at least 12 percent (Figure A2 in Online appendix). The costs borne by individual plaintiffs and corporate litigants rise in the presence of TPLF. According to the Swiss Re Institute (2021), a 27-percent increase in awards would be required to compensate these actors for the costs incurred by the use of TPLF.

5.4 Anti-corporate bias

A national Juror Survey conducted from 2008 to 2019 (Broda-Bahm, 2020) reveals that the percentage of jurors who believe that a large corporation would often lie if it could benefit financially from doing so has been steadily increasing during the study period. The percentage reached 89 percent in 2019, the highest recorded since 2013.

In parallel, the percentage of jurors believing that a large corporation would rarely lie if it could benefit financially from doing so has been steadily dropping since 2016, reaching 11 percent, also the lowest percentage experienced since 2013, as shown in Figure 5. These figures reflect the constant anti-corporate climate that reigns among US jurors over the past decade.

Figure 5: Anti-corporate stability over time, 2008-2019



Source: Broda-Bahm (2020).

Note: National Juror Survey 2008-2019, N=5,672.

In a related study on juror attitudes, Orrick (2023) surveyed over 1,000 jury-eligible individuals from regions⁹ prone to nuclear verdicts. After adjusting for demographic factors such as age, race, education level, profession and political orientation, the results indicate that, from the pre-COVID era to today, negative perceptions of corporations have nearly doubled from 27 to 45 percent. Moreover, 41 percent of the participants revealed a diminishing faith in science compared to the period before the pandemic. Additional insights show that the percentage of prospective jurors inclined to side with a single plaintiff over large corporations also nearly doubled, reaching 59 percent compared to 33 percent during the pre-pandemic period (Figure A3 in Online appendix).

This erosion of institutional credibility compels jurors to take greater responsibility in legal proceedings and administer their own form of justice. This dynamic, particularly exacerbated in the post-pandemic context, thereby amplifies liabilities for defendants and contributes to rising insurance costs related to litigation.

6 Importance of social inflation in 2025

Considering the notable escalation in litigation costs and severity of claims in recent periods, the ongoing and forecasted expansion of the TPLF market, technological advancements, and the growth of other forms of inflation, 2025 is set to be a defining period for insurers and a critical threshold for the intensification of social inflation.

Notably, the Bank of Montreal (BMO) capital markets division and a private claims technology firm (Snapsheet, 2025) both highlight this phenomenon as one of the key challenges the US insurance industry will continue to face in 2025. Although insurers have adjusted reserves in line with evolving claims patterns, the continuing influence of social inflation is projected to push companies to adopt forward-looking and disciplined

⁹ California, Florida, Kansas, Illinois, Indiana, Louisiana, Minnesota, Missouri, Texas, New Jersey, and New York.

approaches in both capital allocation and rate-setting (BMO capital markets, 2025), in light of sustained litigation cost escalation above 10 percent (Musselwhite, 2025).

Recent jury award patterns, together with industry experts' insights, suggest that the anticipated 2025 year-end scenario is expected to continue for a period of time. The average verdicts for plaintiffs climbed to \$16.2 million in 2024, marking a 76-percent gain from 2022 and a 276.74-percent increase relative to 2019, based on an analysis of over 73,000 cases conducted by Lex Machina (Risk & Insurance, 2025; Rydholm, 2025). The report indicates that, on the other hand, throughout the same period, awards determined by judges have experienced only moderate variation, without evidence of substantial upward trends. This comparatively stable pattern implies that the escalation of social inflation stems from external factors affecting juries, such as public sentiment and contemporary societal expectations, rather than inherent judicial discretion. Besides, jury awards are not only escalating in scale but also in scope; according to a study conducted by Marathon Strategies, the year 2024 recorded 135 nuclear verdicts, the largest figure ever observed. Thermonuclear verdicts, on the other hand, registered an approximately twofold increase between 2023 and 2024, going from 27 to 49 (Marathon Strategies, 2025).

Costs incurred for legal services are climbing in parallel with the growth of the awards. According to the US Chamber of Commerce Institute for Legal Reform, the average cost of legal representation in personal injury suits rose at an average annual rate of 7.1 percent between 2016 and 2022, above the corresponding 3.4 percent inflation rate (McKnight and Hinton, 2024). Legal service fees experienced an additional increase of 6.5 percent during the second quarter of the year 2024 (Belanger, 2024). The aggregate effect is a volatile litigation environment that imposes substantial financial strain on insurers and re-insurers.

Industry experts affirm that the development of the main catalysts of social inflation, such as the TPLF industry, valued globally at over \$17 billion (CRC Group, 2025; Accetta and Geller, 2025) is set to persist in the foreseeable future. According to recent market research conducted by various consulting firms, the US litigation funding market is expected to reach a CAGR ranging between 8.9 percent and 11.1 percent within the next ten years (Credence Research, 2024). This significant growth reflects increasing investor interest and

availability of external capital to finance legal claims. As a result, this expansion is driving greater litigation activity, which, in turn, shifts the risk landscape. This observation underscores the critical need for insurers to better capture the influx of third-party funding to adequately manage social inflation and its impacts on reserve and pricing adequacy.

The challenge is considerable, particularly within the casualty insurance industry. The inherently long-tail characteristic of casualty claims implies that losses can emerge or escalate several years after policies are written, making the ability to accurately predict liabilities more complex for insurers (Pain, 2020; Moorcraft, 2020; Munich Re, 2024). While the sector is beginning to experience signs of stabilization, the financial impact of historical under-reserving, particularly for excess liability lines over the last five years, continues to weigh on balance sheets (Moorcraft, 2020). This results in a complex environment where insurers are responsible for managing both prior claim costs and emerging social inflation dynamics.

The expanding use of Artificial Intelligence (AI) solutions is expected to significantly reshape the litigation landscape by introducing new and complex risks such as data breaches, fraudulent activities and other forms of cybersecurity challenges. As organizations increasingly rely on automated systems, the potential for misuse or accidental exposure of sensitive information grows, ushering in new regulatory and legal implications.

Furthermore, the extensive integration of AI across organizational processes could result in notable employment disruption across several industries, undermining economic stability across the labor force. Such a transition may fuel the cycle of social inflation (Kelley et al., 2018), as a shifting culture of legal recourse emerges in response to growing social inequities. A further consideration that could exacerbate this trend is the prospective increase in unemployment-driven claims.

The “dangerous double barrel” of social and economic inflationary pressures, as described by industry experts (Seaman, 2023), further threatens the P&C insurance market. Economic inflation is likely to drive social inflation through several means. First, it

contributes to an increase in the overall cost of claims and prompts insurers to adjust their operational proactivity, across different insurance segments, accordingly. For instance, P&C insurers would be required to assess the accuracy of declared values, as there might be a substantial discrepancy between these values and actual replacement costs driven by economic inflation. Economic inflation also leads to an increase in legal defense costs and attorneys' rates set by law firms as the market experiences upward price pressure. In addition, this form of inflation impacts other aspects of insurer operations such as investments. There is a risk of a detrimental effect on investment earnings along with the availability of capital (Dionne et al, 2025).

Beyond macroeconomic influences, factors such as escalating costs related to the transition toward a green economy and carbon neutrality, commonly referred to as greenflation, must be factored into general inflation analysis (Seaman, 2023). This additional component, which is gaining momentum as multiple firms strive to reduce their carbon emissions, implies the presence of a triple threat of inflation for the insurance industry.

Marked by a higher probability of tail-risk events, as well as a diminished capacity to forecast and underwrite risks, the ramifications of social inflation are now unprecedented. As TPLF continues to evolve, its trajectory reflects an increasing role in the US litigation ecosystem, with implications for litigation outcomes, insurance costs, and the integrity of the legal system. Collectively, these points underscore that TPLF is a critical focus in current policy conversations. Navigating the dual challenges of economic and social inflation also poses challenges and requires a multifaceted approach. Although a few actions have been taken within the casualty insurance industry to address losses, the impact of these changes may take several years to materialize.

7 How to manage social inflation

Navigating the complex landscape of social inflation would involve actions taken on two levels. Although the source of social inflation risk is out of their control, (re)insurers can still take preventive actions to assess and mitigate its impact. The government, on the other

hand, should intervene to regulate the legal environment by enforcing transparency standards and implementing reforms that curb excessive litigation and fraudulent claims.

7.1 Private management by insurers

From the insurers' perspective, addressing the realities of social inflation could imply a combination of advanced and data-driven risk assessment, underwriting and actuarial practices, proactive claims management, transparent risk communication with policyholders, fraud detection investment, and advocacy for state-level legal reforms.

There is an increasing need for insurance carriers and reinsurers to set aside reserves for the growing number of long-tail claims from social inflation factors. Investing in predictive analytics (Deloitte, 2024) and trained human capital can help experts diagnose trends in social inflation and outlier claims at an early stage to prevent escalation. It not only would contribute to enhancing risk forecasting but also support sound underwriting and premium pricing.

Leveraging econometric and forecasting frameworks could assist P&C insurers in modeling the uncertainty in future claims by generating a wide range of possible outcomes based on varying social and legal assumptions. By simulating thousands of scenarios with different input variables (such as changes in public opinion or legal rulings), insurers can capture a range of possible claim outcomes and assess the tail risk that might lead to significant cost increases.

Additionally, using text mining tools such as natural language processing (NLP), sentiment analysis based on media or news data can be integrated into risk models. Tracking societal shifts, i.e., public sentiment toward corporate accountability or changes in legal interpretations, can serve as a leading indicator of future litigation trends.

These methods would create a robust and dynamic risk model that can better account for social inflation and improve claims forecasting and reserve management. P&C insurance and reinsurance industry professionals could retool the traditional actuarial approach to

assess risks and include social inflation in their risk inventory and strategic plan, using a segment-specific approach. This can be done by tailoring the methodology to recent societal trends and integrating more dynamic models that can simulate different stress scenarios that reflect emerging trends. For example, in order to monitor, measure and report social inflation impact, actuaries could incorporate legal risk indices such as ESG, public sentiment, and real-time litigation data into their models.

Insurers can effectively respond to the challenge of social inflation by addressing the root causes driving the rising costs of claims. A critical step involves strengthening their claims management teams, ensuring that claim adjusters are not only sufficiently staffed but also properly trained and equipped with the necessary resources and technology. By doing so, insurers can expedite the claims handling process, reducing delays that often lead to increased legal fees, prolonged negotiations, and higher settlement amounts. Prompt and efficient claims resolution helps prevent unnecessary escalation, ultimately controlling costs and mitigating the financial impact of social inflation on the insurance industry. Furthermore, proactive claims management allows insurers to identify patterns or emerging risks early, enabling them to implement targeted strategies that limit exposure to costly claims in the future.

Additionally, insurers should consider implementing lower policy limits for policyholders who choose not to utilize the services of the insurer's trusted network of contractors and service providers. This approach incentivizes the use of vetted professionals who can deliver quality repairs or services efficiently, which helps insurers control costs and reduce the risk of inflated claims. By encouraging policyholders to work with a reliable network, insurers can better manage claim expenses, maintain consistent service standards, and minimize opportunities for unnecessary or excessive repairs that contribute to social inflation.

Further, insurers could leverage AI to proactively identify fraudulent claims and target policyholders that would be potentially inclined to sign AOB agreements. They should provide clients with clear and accessible education on the potential drawbacks of such arrangements. By informing policyholders about the risks—such as loss of control over the

claim process, increased likelihood of disputes, and potential for inflated costs—insurers can effectively dissuade them from signing AOB agreements. This targeted outreach not only helps protect both parties from unnecessary litigation and inflated claims but also promotes more transparent and efficient claims management. Insurers can also mitigate social inflation by offering policy options with coverage limits and exclusions tailored to emerging social inflation risks.

Insurers need to continue to actively engage in the public policy debate to promote changes in the legislative framework in order to ensure fairness in settlement awards. In collaboration with organizations such as the US Chamber of Commerce, American Tort Reform Association (ATRA), and state-level tort reform coalitions, insurance and reinsurance companies could initiate and pursue lobbying efforts by discussing how TPLF fuels social inflation and advocating for stricter regulations within this growing industry. The advocacy approach could encompass issuing articles and reports about the drivers of social inflation, as well as organizing conferences and symposiums to encourage conversation and engage stakeholders.

Along similar lines, to further mitigate excessive jury awards and promote more lenient interpretations of liability, insurers should lobby for additional legal reforms, such as reasonable caps on non-economic damages and limitations on collective redress, namely class actions and mass tort. Reinsurers may join forces with primary insurers to campaign for those regulatory changes.

Although insurance companies can help to limit the growth of social inflation by implementing this set of recommendations within their industry, they cannot lead the effort alone. Policymakers should intervene to regulate litigation dynamics and prevent unfair practices.

7.2 Social management by government

The involvement of a third-party through litigation funding prompts ethical scrutiny regarding the ultimate decision-makers involved in a litigation process. Initiatives aimed

at restructuring TPLF operations should address those regulatory blind spots and their contribution to social inflation by improving transparency and preserving the integrity of legal proceedings. Their implementation could play a crucial role in curbing rising litigation costs and sanctioning abuse in the legal system, as well as fraudulent litigation.

In states where third-party litigation funding remains unregulated, lawmakers should push for legislation around transparency and mandatory disclosure of litigation financing; courts and all parties involved in civil litigation should be informed of any agreement in which a third party finances legal costs in exchange for a portion of potential proceeds. Several states including Indiana, Louisiana, and Montana have enacted laws imposing strict regulations on TPLF, paving the way for other states to adopt similar measures. Montana's new law, specifically, requires disclosure of TPLF agreements and for litigation funders to register with the Montana secretary of state. It also makes litigation funders jointly liable for costs, and imposes a 25-percent cap on the amount that funders may receive as potential compensation arising from legal actions (US Chamber of Commerce Institute for Legal Reform, 2023b).

Clients must also be notified if their legal counsel has a TPLF arrangement. Attorneys should systematically be subject to discovery to foster transparency and accountability. Third party funders should be prohibited from exerting any influence over litigation or settlement decisions, to uphold ethical standards and guarantee that procedural and strategic decisions remain within the control of attorneys and their clients (Behrens, 2025; US Government Accountability Office, 2022; California State Bar Standing Committee on Professional Responsibility and Conduct, 2020).

Finally, in an effort to reduce the incidence of meritless legal claims and abusive litigation practices, both third-party investors and their partnered law firms should be jointly held liable for any sanctions imposed by the court (Behrens, 2025).

Policymakers should also consider passing legal reforms that aim to promote more impartial legal decisions. In addition, to protect consumers, businesses and insurers from exploitative trial lawyer tactics, they should regulate and sanction misleading legal

advertising. These costly promotional strategies are often structured to drive up participation in mass tort litigation and compel companies to enter into comprehensive settlements, even when the underlying claims lack direct causative evidence (Silverman, 2017; Insurance Information Institute, 2022). As an added measure, in light of the abuse related to AOB agreements, the regulatory provisions of the relevant states ought to be subject to reforms.

The aforementioned series of targeted initiatives and interventions—including the regulation and enforcement of compulsory disclosure of third-party litigation funding practices, disciplinary measures for predatory legal advertising, the improvement of claims management and data-driven underwriting practices in all states—could contribute to mitigating the issue of social inflation.

8 Conclusion

This paper analyzes how and to what extent the US property and casualty insurance industry is subject to social inflation. Social inflation, characterized by the increasing costs of insurance claims due to societal and legal shifts, constitutes a major issue for policyholders, insurers and reinsurers. This phenomenon, which originated in the 1970s and has resurfaced over the past five years, is particularly driven by the growing use of third-party litigation funding and contingency-fees, higher jury awards and punitive damages, increasingly assertive legal strategies by plaintiff lawyers, plaintiff-friendly legislation and the expansion of liability through new legal doctrines.

The empirical evidence indicates heterogeneity across different lines of business, with commercial trucking and private auto being the most affected. Empirical studies and data also point to social inflation as a cross-jurisdictional concern, placing upward pressure on insurers' loss ratios.

Considering the unpredictable nature and the growing importance of social inflation in the present era, finding mitigating measures to control the risks implied by this phenomenon becomes crucial to ensure the long-term profitability and stability of insurance operations.

As a first step, it is important that P&C insurance industry professionals adopt a segmented approach, as certain regions and line of business are particularly prone to social inflation and merit close monitoring. A standardized risk modeling framework would fail to account for cross-jurisdictional and line-specific differences. Insurers and reinsurers could integrate scenario-based models in their reserving approaches to better capture the impact of litigation trends and societal expectations. Investment in advanced litigation analytics and claim pattern forecasting based on historical and real-time data can also improve underwriting discipline.

Given the rise in mass tort cases and those supported by third-party litigation funding, policy terms should be reassessed to reduce ambiguity and clarify exposure boundaries. Insurers should strategically embed AI tools into their risk management and claims handling models to optimize pricing and improve customer satisfaction, while maintaining the integrity of their information.

On the policy front, regulatory and legislative bodies should implement mandatory disclosure of third-party litigation funding agreements to improve transparency in the civil justice system. Ultimately, regulatory frameworks tailored to law firms can mitigate attorneys' abusive practices and help rebalance fairness and efficiency in the legal process.

Together, these measures can support a more resilient insurance environment and safeguard access to justice without compromising the sustainability of the insurance sector.

The last comment concerns research on social inflation. Insurers have limited experience with the analysis of social inflation and their models are often not adapted to this concept. Academic research on social inflation in the insurance sector is lacking, although some recent non-academic contributions have started to consider this phenomenon. However, these well documented studies on potential effects of social inflation on the insurance

industry do not provide strong empirical evidence of the real effects of social inflation on this industry, using appropriate methodologies. More economic research must be undertaken to isolate the causes and effects of social inflation on society.

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Abbreviations

Abbreviation	Definition
AI	Artificial intelligence
AOB	Assignment of benefits
ATRA	American Tort Reform Association
BMO	Bank of Montreal
CAGR	Compound annual growth rate
COVID	Coronavirus disease
DID	Difference-in-differences
FLOIR	Florida office of insurance regulation
III	Insurance information institute
IRR	Internal rate of return
LAE	Loss adjustment expense
LFC	Litigation Finance Company
NLP	Natural language processing
P&C	Property and casualty
PI/WD	Personal injury and wrongful death
SRI	Swiss Re institute
TPLF	Third-party litigation funding
UK	United Kingdom
US	United States

Online appendix

Table A1: Summary of TPLF rules for a selection of US states

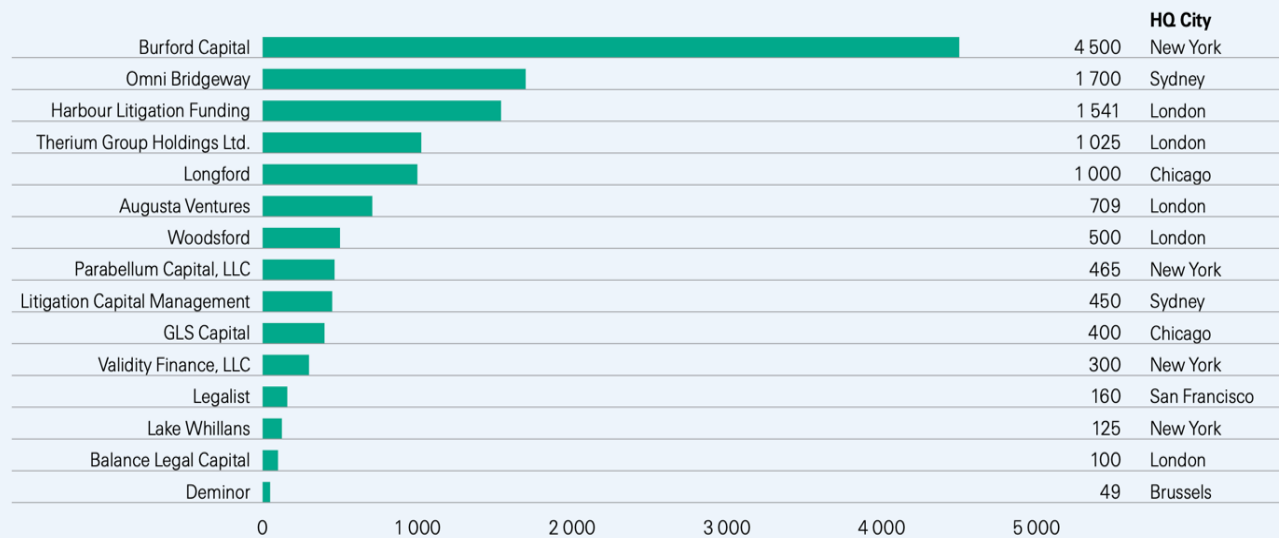
	Permitted?	Disclosure required?	Usury rules apply?
California	Yes	Yes (class actions)	No
Texas	Yes	Partially	No
Florida	Yes	Partially	No
New York	Partially	No	Under court review
Pennsylvania	No	N/A	N/A
Illinois	Yes	No	No
Ohio	Yes	Yes	No
Georgia	Yes	Yes	No
North Carolina	No	N/A	N/A
Michigan	Yes	Yes	No
Arizona	Yes	Yes	No
Tennessee	Yes	No	Yes
Indiana	Yes	No	Yes
Colorado	Yes	No	Yes
Arkansas	Yes	Yes	Yes
West Virginia	Yes	Yes	Yes

Source: Swiss Re Institute (2021)

Figure A1: Largest dedicated LFCs, 2020 assets under management (USD millions)

Figure 3

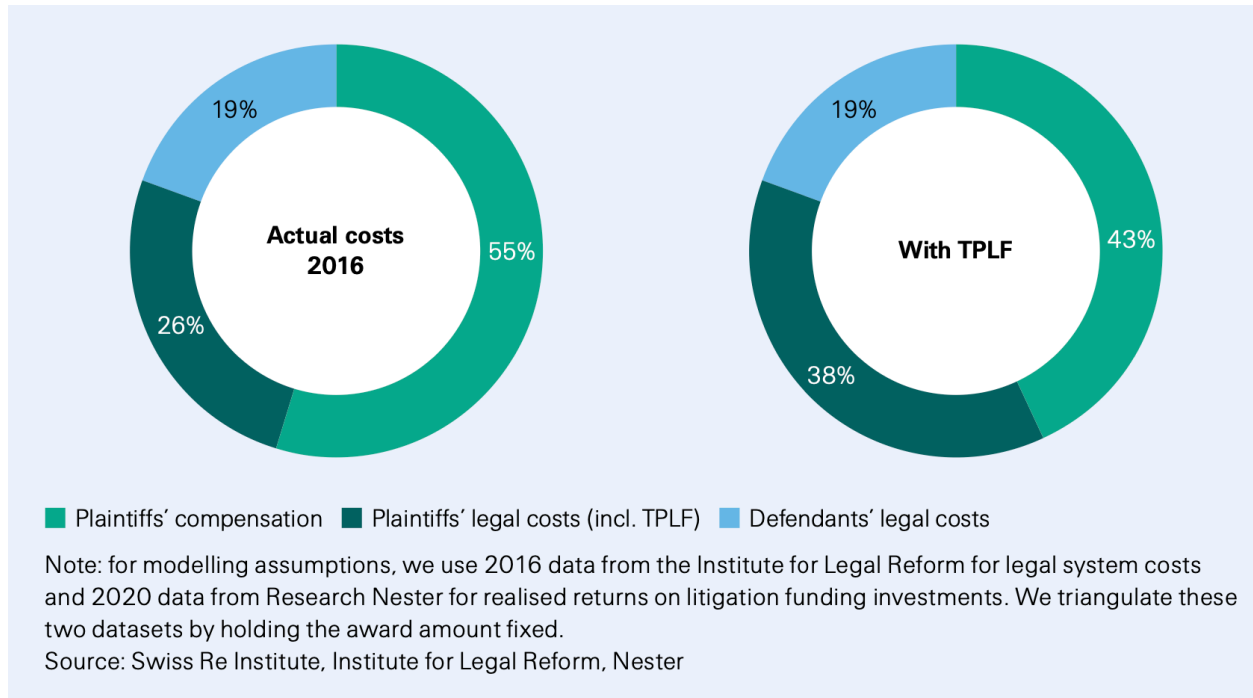
Largest dedicated LFCs, 2020 assets under management (USD millions)



Note: capital raised is shown where funds under management data is not available. Source: company reports, Swiss Re Institute estimates

Source: Swiss Re Institute (2021).

Figure A2: Estimated distribution of commercial liability tort system costs without and with TPLF contribution



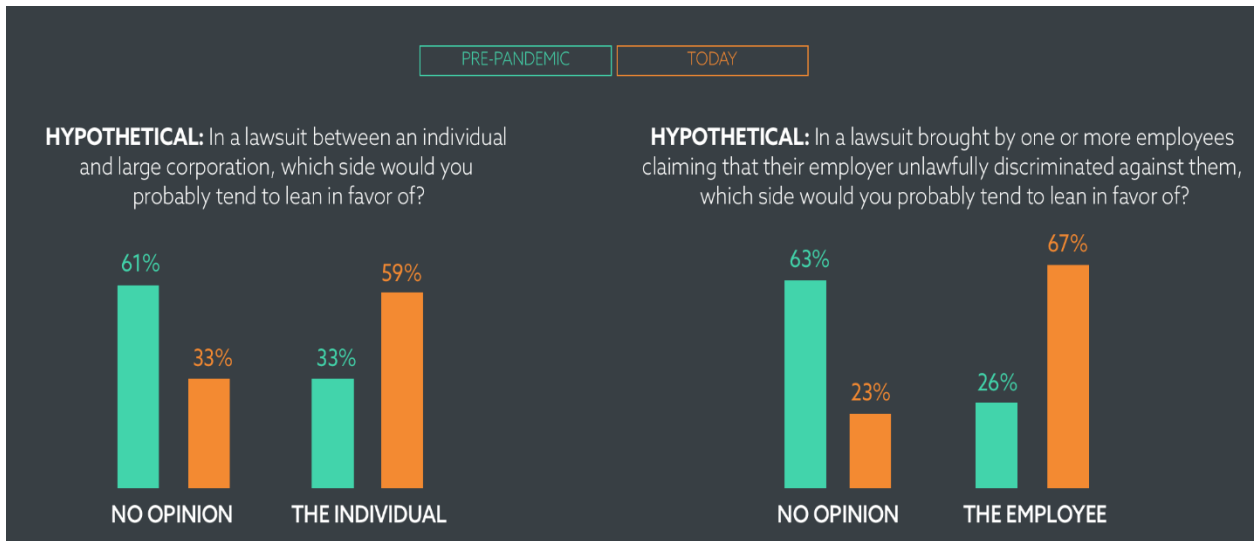
Source: Swiss Re Institute (2021)

Table A2: Plaintiff Win Rates in PI/WD Tort Verdicts by Category, 2010-2019

Verdict Category	Number of Verdicts	Plaintiff Win Rate (%)
All verdicts	26,114	57.5
Case type		
Medical malpractice	2,553	34.8
Commercial trucking	1,068	64.0
Other commercial vehicles	3,234	69.1
Private auto	9,913	64.6
Other cases against organizational defendants	8,071	51.6
Other cases against non-organizational defendants	1,275	50.3

Source: VerdictSearch, Dixon et al. (2024)

Figure A3: Anti-corporate bias, pre- and post-pandemic



Source: Orrick (2023)