

# Inflation Survey – Marcuson Consulting

## Q1 2023 Update

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# Marcuson Consulting Inflation Survey



## Background

Inflation, the general increase in prices over time, has been the subject of considerable media attention since late 2021. There are dozens of different indices aiming to measure the movement of prices, with differences between them varying from the goods and services they examine to weighting and timing variations, among many other factors.

If looking back at how prices have moved in the last month, quarter or year is difficult, it is overwhelmingly more difficult to know how prices are going to move in the next year. Yet as the high inflation environment has developed, forming a view on future inflation levels is necessary for various purposes including reserve setting, rate setting and capital modelling.



# Marcuson Consulting Inflation Survey



## Introduction

The Marcuson Consulting Inflation Survey has been running since mid-2022 and was launched in view of surging global inflation. We felt that central bank forecasts were too optimistic and there was little data specifically available to the general insurance industry.

Our survey captures sentiment on price inflation and general insurance claims inflation at a broad level of classification. The survey is openly available for submissions, and respondents do so anonymously.



# Marcuson Consulting Inflation Survey



**Submit your response now**

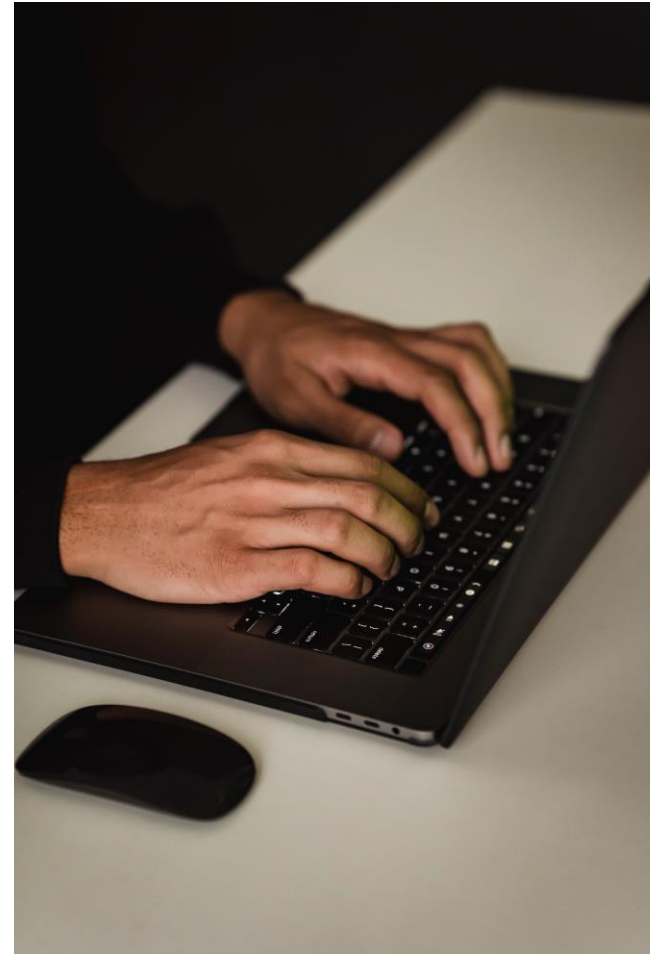
Have you taken part in our latest survey?

Have you previously submitted a response but have revised your estimates in light of the most recent inflation news?

We'd love to hear from you!

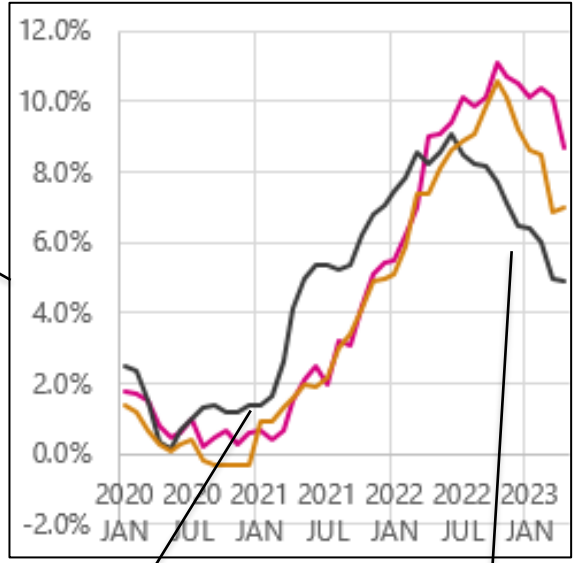
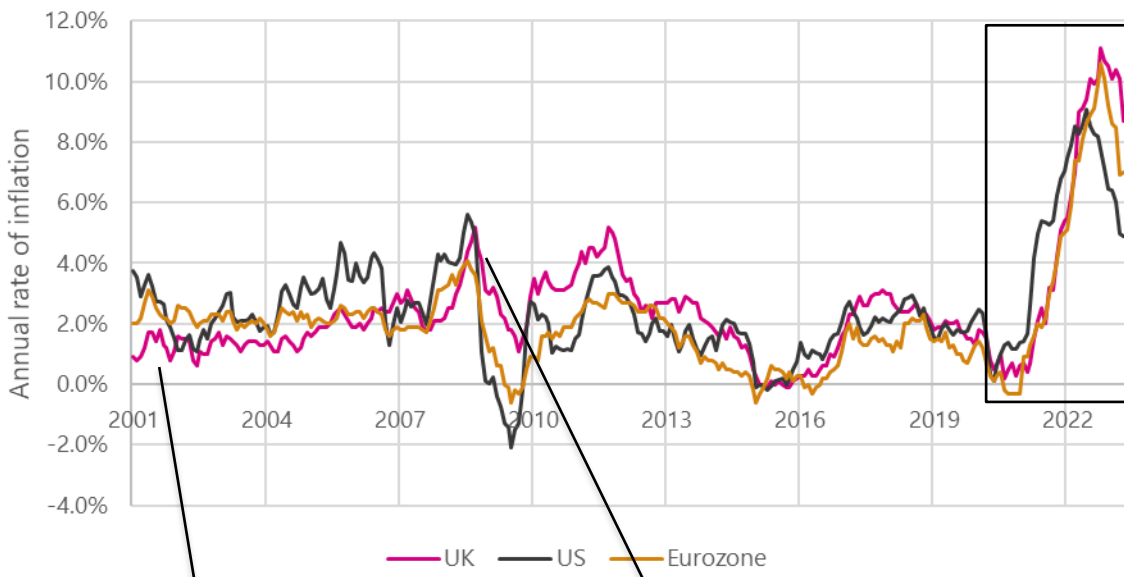
Simply click the button below to take part in the survey.

It's completely anonymous and only takes 3 minutes.



# Price inflation is still well above historical levels

Historical rates of consumer price inflation



*20 years ago, price inflation was relatively low and stable*

*Although there have been some periods of relative price instability, for example as a result of the Global Financial Crisis, annual inflation above about 5% has never been sustained*

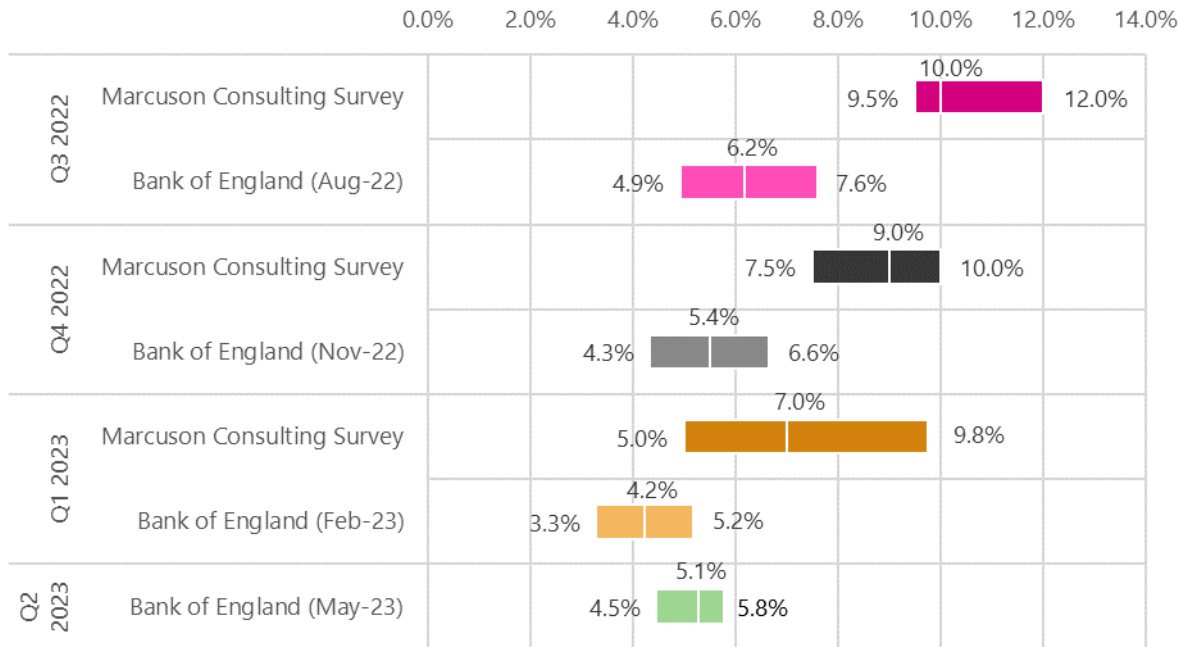
*Since 2021, inflation has suddenly risen rapidly*

*The peak has passed as energy spikes wash through, but inflation is still well above historical levels in the UK and Europe*

Source: ONS, US BLS and Eurostat

# Survey responses indicate a gradual decline in inflation

Estimated ranges for UK price inflation over 2023



Our survey has consistently suggested a much slower decline in inflation than the Bank of England (and others, such as IMF and OECD), with a large gap at the middle of the distribution of 3-4% at the end of 2023.

Both our survey respondents' and Bank expectations for inflation have reduced over time as the central bank has taken action to raise interest rates.

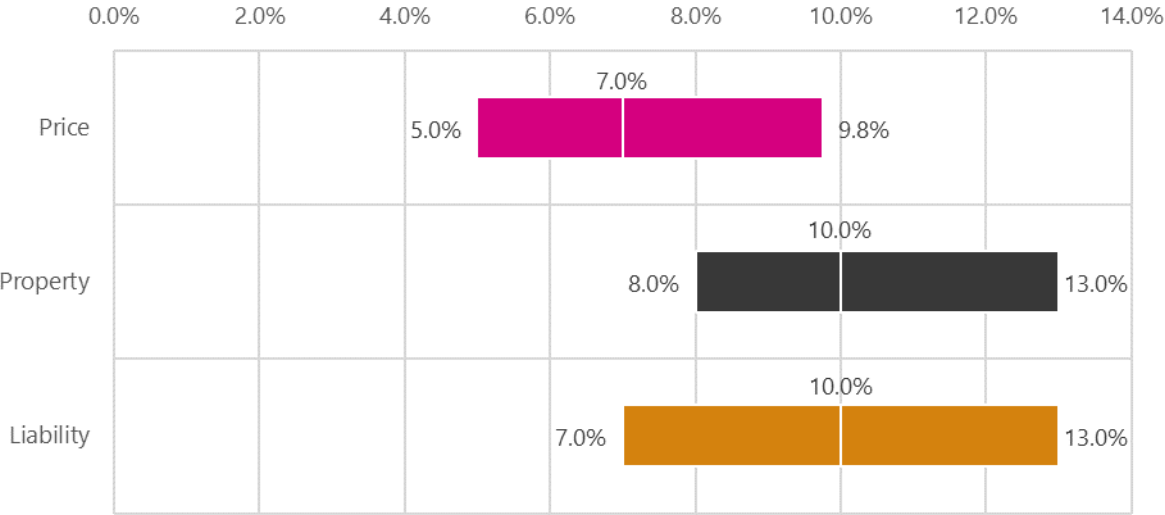
↓  
*The Bank of England increased its forecasts in May towards the ranges indicated by our respondents, but a considerable gap remains. Recent statements indicate the Bank's expectations are higher still.*

Source: Marcuson Consulting Quarterly Inflation Surveys 2022-23, Bank of England Monetary Policy Reports



# Property and liability claims inflation in the UK sitting at c. 3% above price inflation

Survey estimates of price, property claims and liability claims inflation



The uplift from price inflation to property and liability claims inflation is about 3% across the range of responses.



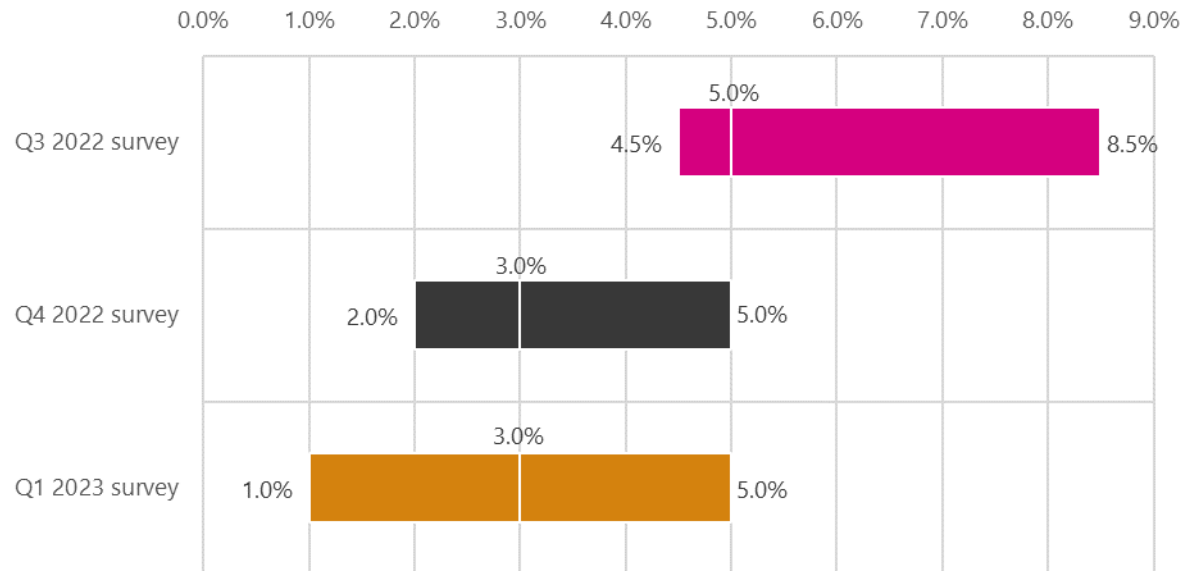
*The ranges indicated for property claims and liability claims inflation are fairly similar*

Source: Marcuson Consulting Q1 2023 Inflation Survey

# UK liability claims inflation uplift has been reducing



Survey estimates of UK liability claims inflation uplift in 2023



*The range of views on the gap between liability claims inflation and price inflation has been relatively stable.*

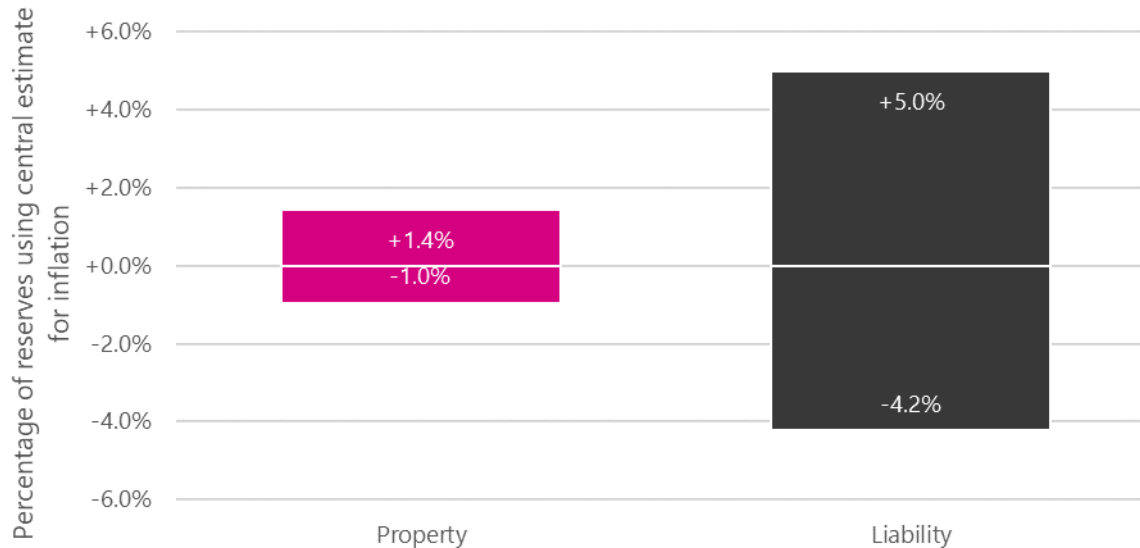
*But they are now less skewed...*

*...and trending downwards.*



# Sensitivity of reserves to range of survey estimates

Impact on reserves using high and low inflation estimates compared with central estimate



The bars indicate the impact on reserves of adopting a range of inflation estimates.

Inflation uncertainty is much greater for liability claims.

Firms should consider the impact of uncertainty on claims management strategies.

# Summary

The current wave of inflation has peaked but the outlook remains concerning, especially in the UK.

Our survey has fared better than the forecasts prepared by the BoE, IMF, and others. Contrary to the BoE prediction of a sharp decline, our respondents have predicted a much more moderate drop in inflation rates – and so far, it seems they've been right.

The final word goes to ChatGPT, when asked to comment on our survey findings ... *"the fact that the survey respondents have been more accurate in their predictions is a reminder that economic forecasting is not an exact science, and that diverse perspectives and insights are crucial for accurate predictions. By seeking out a variety of opinions and predictions, we can gain a better understanding of the economic landscape and make more informed decisions for the future."*



...or maybe we've just been lucky!

# Get In Touch

If you would like to discuss the results of our survey, or any other thoughts on inflation, please contact us at [survey@marcuson.co](mailto:survey@marcuson.co)



Alex Marcuson FIA  
Managing Director



Marcus Schofield FIA  
Actuary