

Inflation Q3 2023 Update

Marcuson Consulting Quarterly Inflation Survey

November 2023

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Marcuson Consulting Inflation Survey

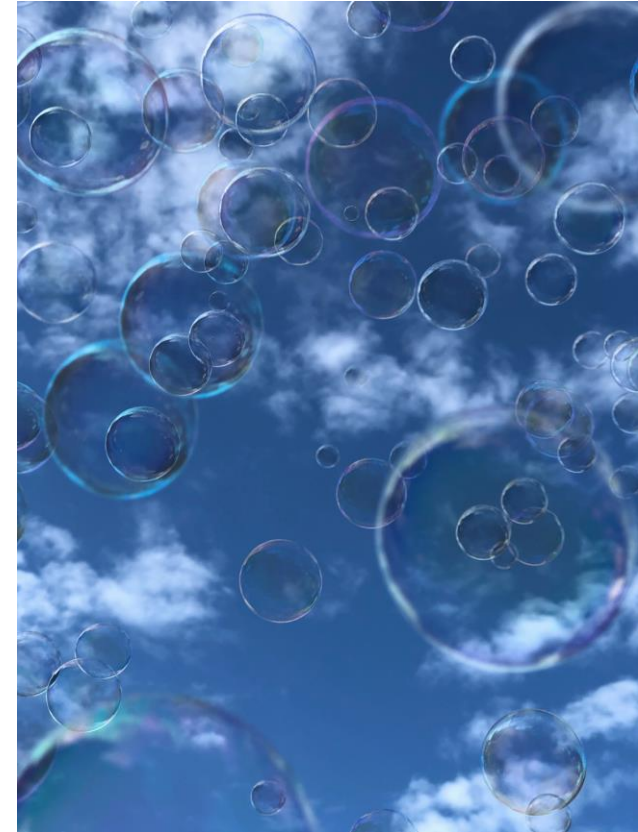
Background



The quarterly Marcuson Consulting Inflation Survey has been running since the second half of 2022. Over this period, price inflation in the UK and in other advanced economies has risen, peaked, and then fallen at varying rates.

In Q3 2023, we had the unique opportunity to partner on our survey with the IFoA's general insurance claims inflation working party. This meant that our survey reached a larger number of respondents this quarter, and we asked a wider range of questions. Many thanks to all who responded to the survey in Q3.

This report provides some insight into the results from the Q3 instalment of the survey and how these compare with previous quarters and other inflation forecasts.



Marcuson Consulting Inflation Survey

Setting inflation assumptions



For actuarial work such as in reserving, pricing and capital modelling, we are interested not only in price inflation, but in claims inflation.

Claims inflation could be defined as¹ the change in claims cost of a like for like policy over time, or as the change in claim cost for a particular type of claim, the latter definition focusing only on severity effects, not changes in claim frequency. But there are no historical indices or forecasts for claims inflation. "Unfortunately," as remarked² by S. Brickman et al., "claims inflation is notoriously difficult to measure with any degree of certainty".

The inflation survey provides insight into insurance practitioners' views on inflation and where it is heading, and provides a possible basis for setting claims inflation assumptions using market sentiment. We have used responses to calculate central, low and high estimates of property and liability claims inflation over calendar years 2023 and 2024.



Inflationary environment

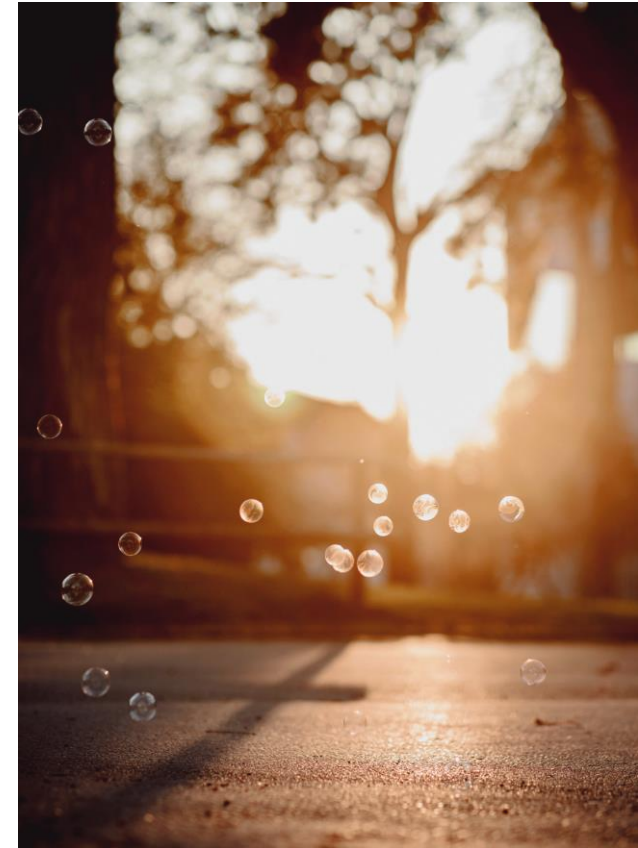
Impact of inflation on reserve uncertainty

Official figures for inflation across advanced economies appear to have peaked and are now falling, at varying rates; illustrated on the next slide.

The IMF has warned³ that, following a spike in inflation, it typically takes three years to return to normal levels. And even if economic inflation does soon settle down, the new long-term average could be somewhat higher than pre-pandemic levels. This could have a serious impact on existing reserves for long-tailed classes, particularly if currently set assuming a return to pre-pandemic levels of inflation.

It could take some time before the full effect of the 2022 spike is reflected in casualty claim settlements.

Inflation outlook and whether/when rates revert to recent historical levels are likely to increase reserve uncertainty at 2023 year-end.

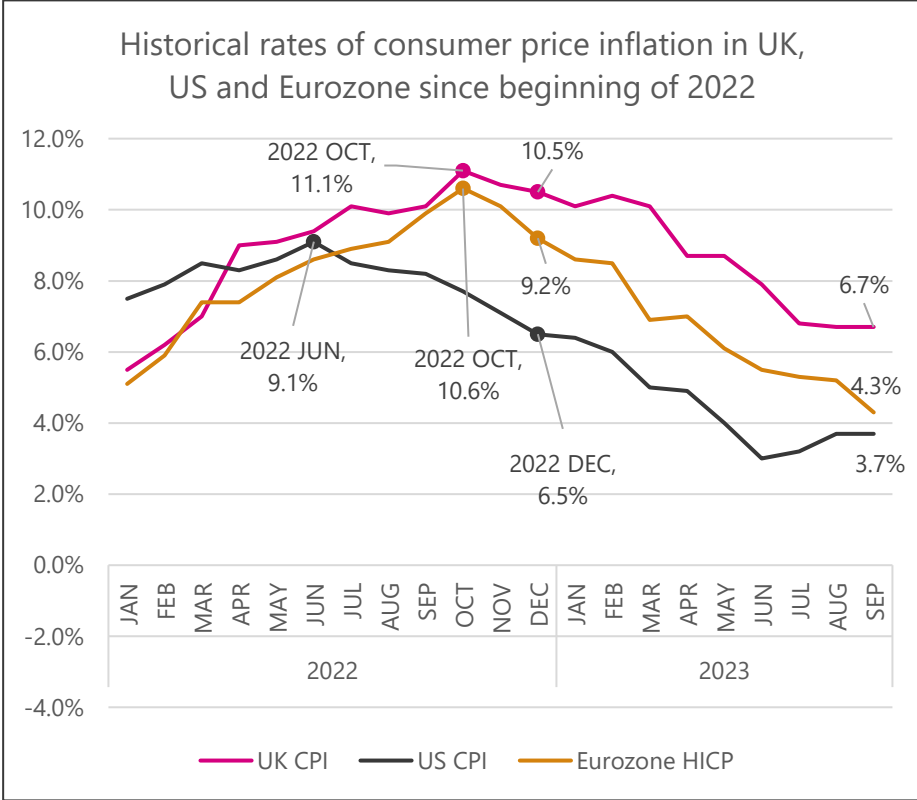
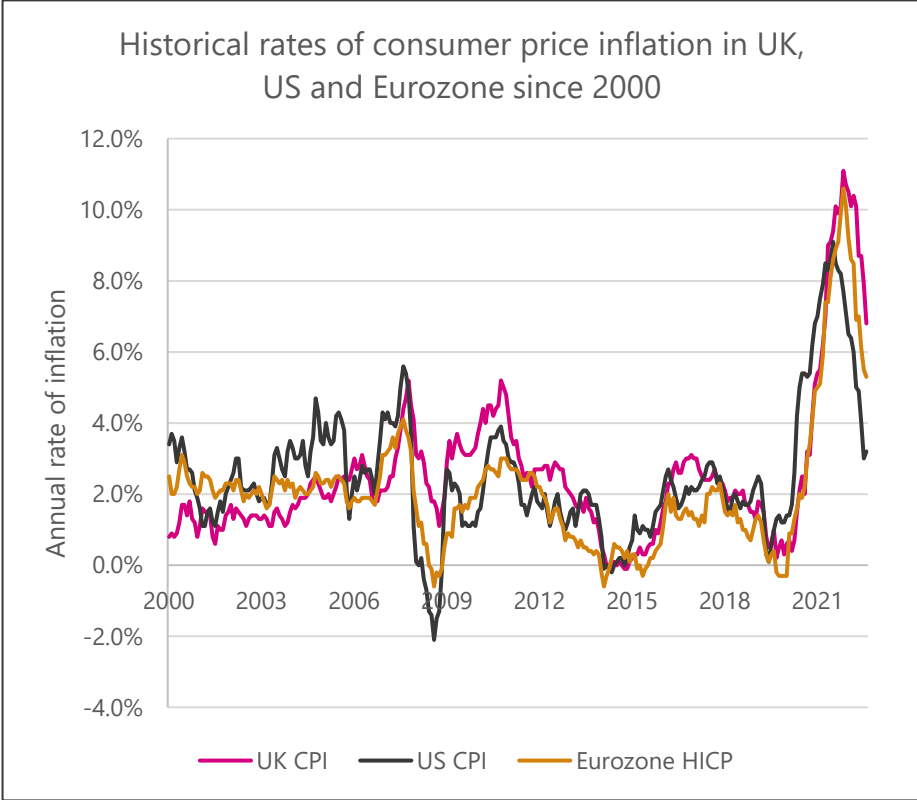


Inflationary environment

Recent movements in price inflation



Price inflation has come down across developed economies, but the decline has been much more rapid in the US than in the UK, and levels remain above central bank targets.



Source: ONS, US BLS and Eurostat

Themes from Q3 2023 Survey

A number of themes emerged from the Q3 instalment of our inflation survey, summarised below, and illustrated on the following slides.

1. Inflation expectations have come down. This is consistent with official figures.
2. Our respondents' estimates of price inflation have remained above those of forecasts published by the Bank of England, IMF and OECD.
3. Respondents' views on property and liability claims inflation are significantly below Q1 and Q2 survey results

Reasons for the sharp fall in claims inflation expectations at Q3, and whether this optimism will persist, are unclear.

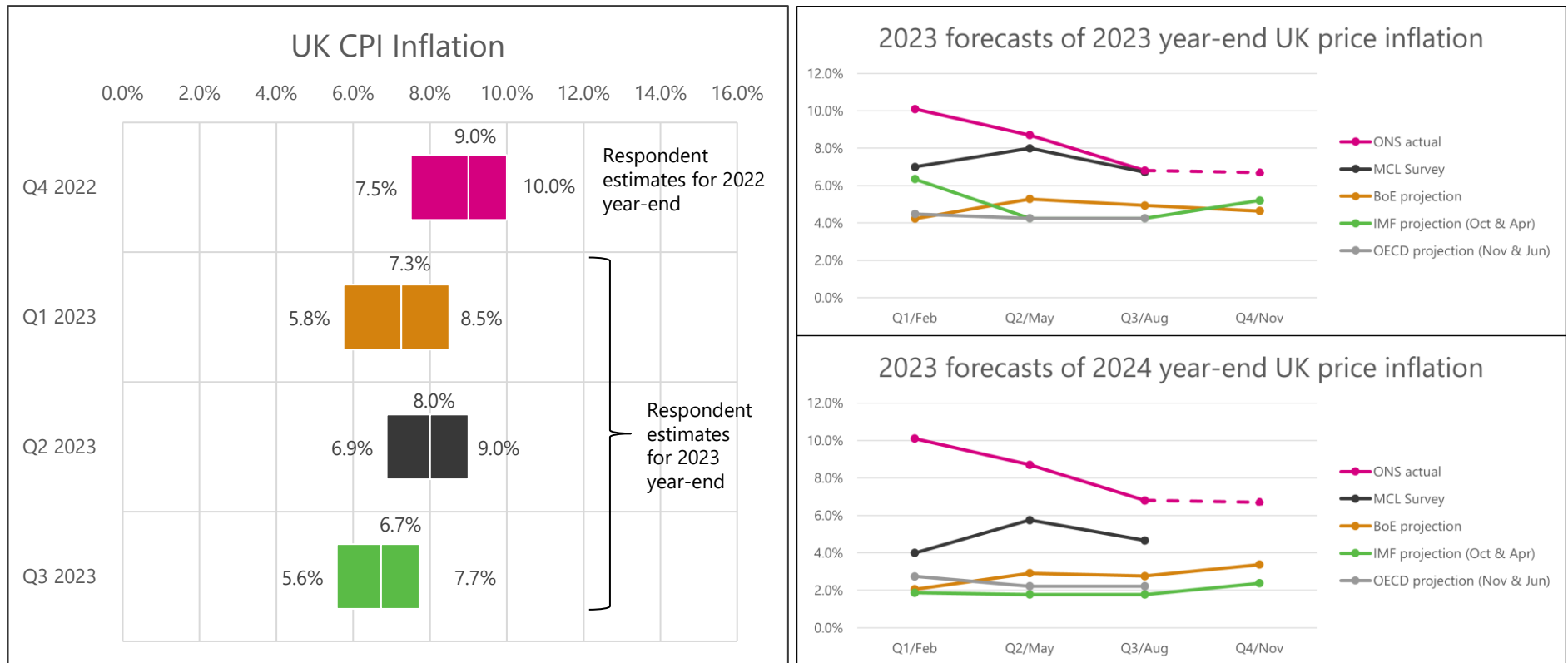


Themes from the Q3 2023 survey

Respondents' views on price inflation



Our respondents' views on UK price inflation have also come down but have been consistently above the projections of the Bank of England, IMF and OECD.



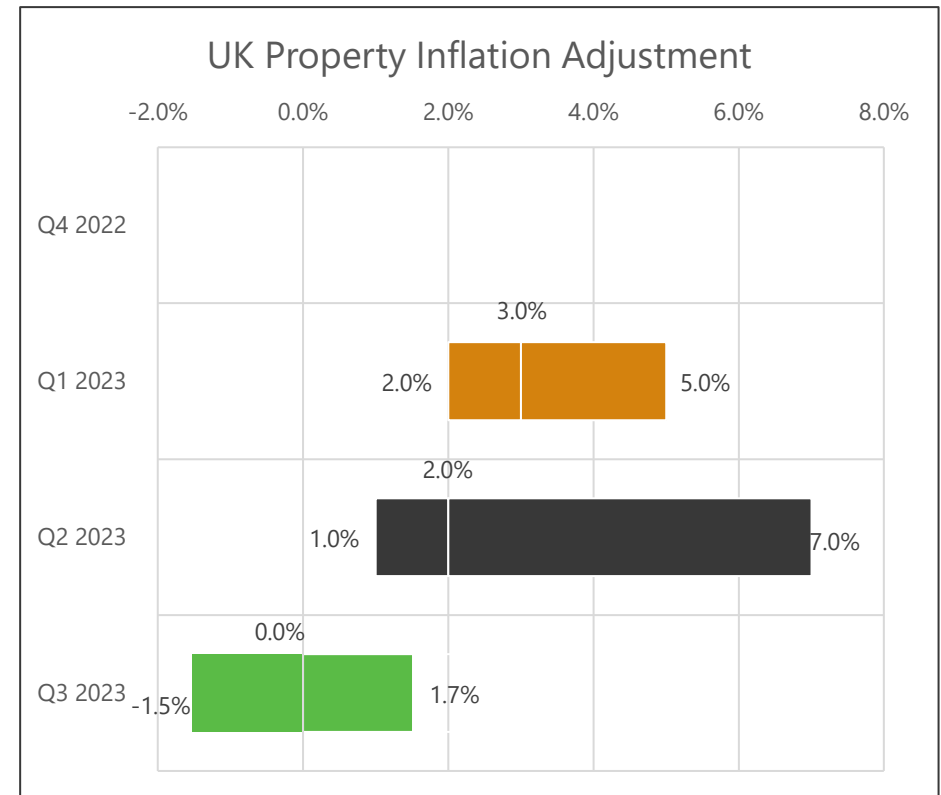
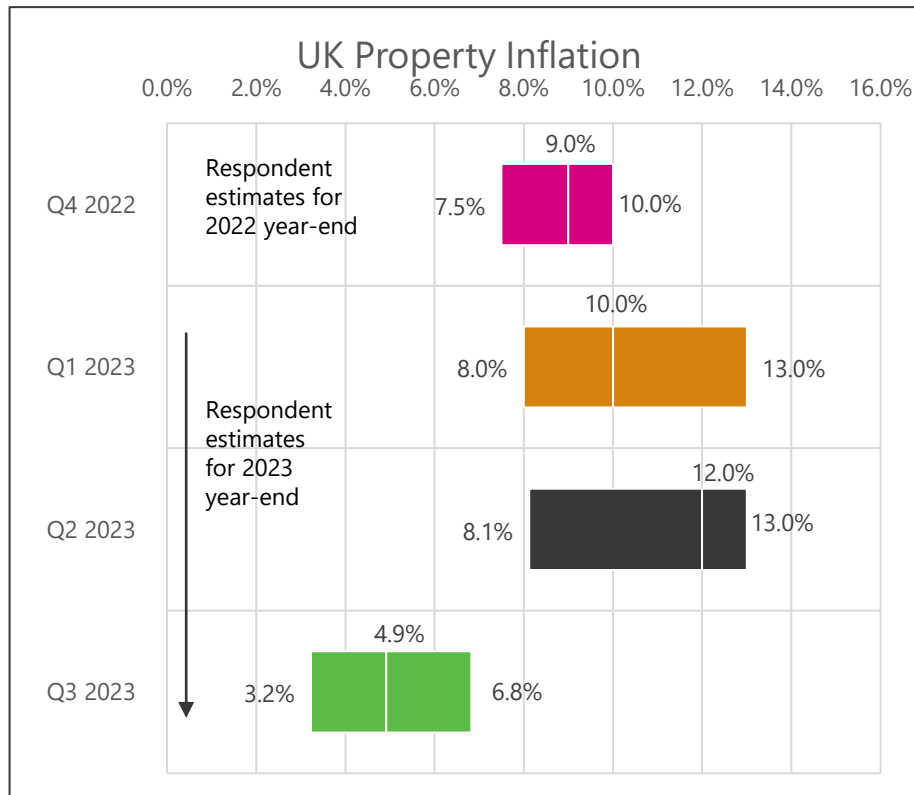
Sources: Marcuson Consulting Quarterly Inflation Surveys 2022-23, ONS Consumer price inflation time series, Bank of England Monetary Policy Reports, IMF and OECD Economic Outlook reports

Themes from the Q3 2023 survey

UK property claims inflation



Views in Q3 on property claims inflation are much lower than previous quarters



Source: Marcuson Consulting Quarterly Inflation Surveys 2022-23

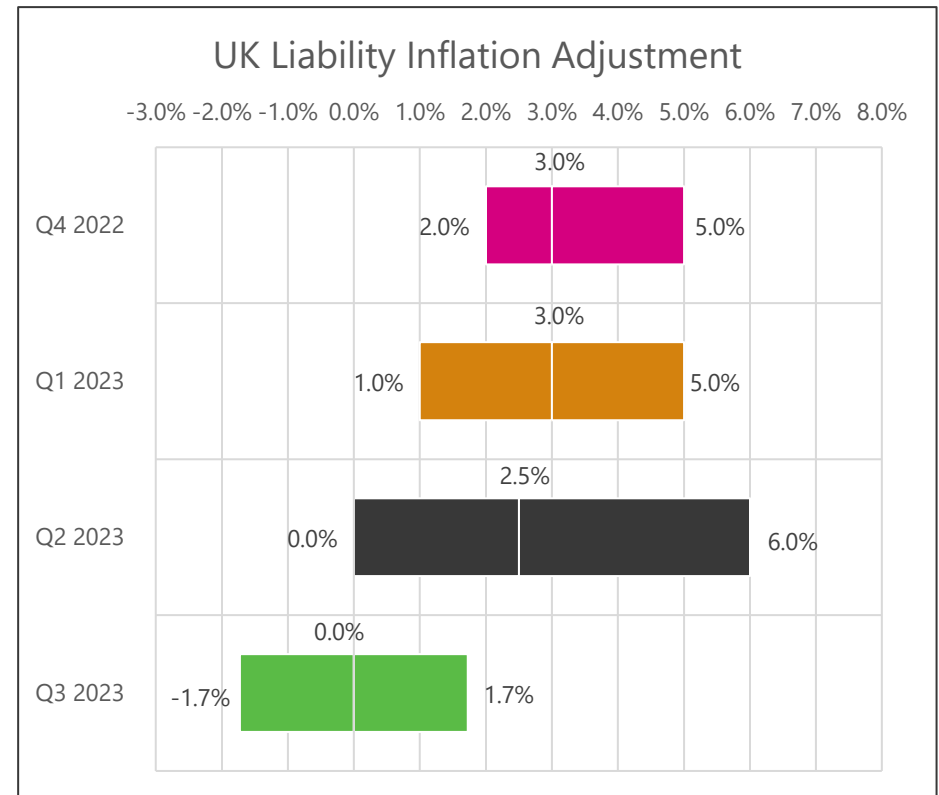
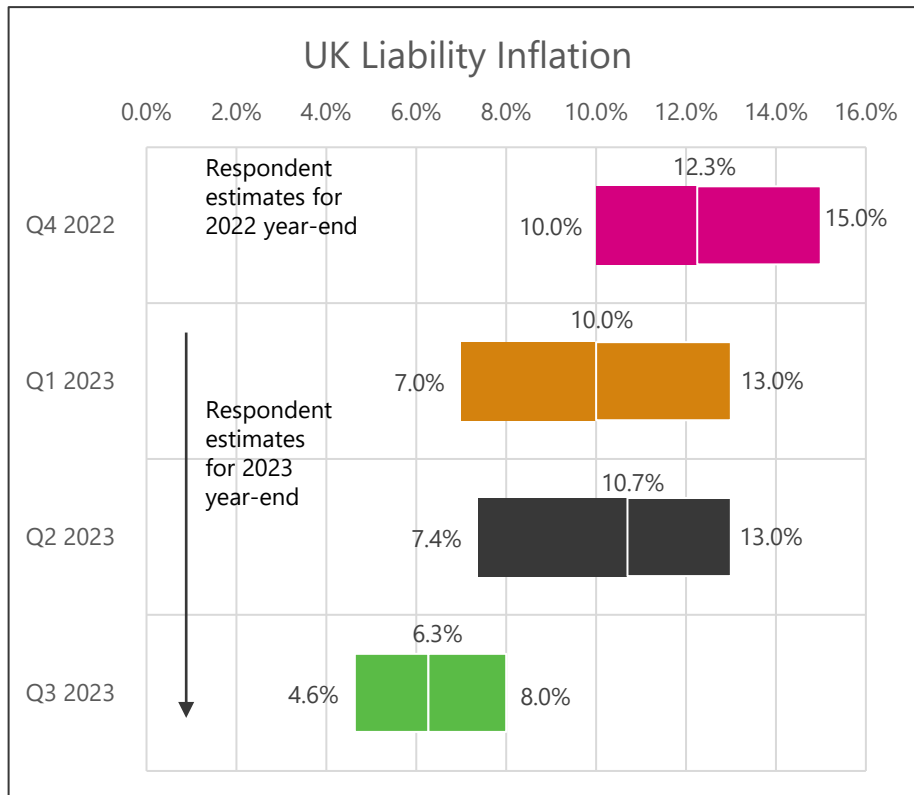
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Themes from the Q3 2023 survey

UK liability claims inflation



Similarly, views in Q3 on liability claims inflation are much lower than previous quarters



Source: Marcuson Consulting Quarterly Inflation Surveys 2022-23

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References and wider reading



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6. OECD (2023), *OECD Economic Outlook, Volume 2023 Issue 1*, OECD Publishing, Paris, <https://doi.org/10.1787/ce188438-en>.
7. UK inflation from the Office for National Statistics, <https://www.ons.gov.uk/economy/inflationandpriceindices/>
8. US inflation from the U.S. Bureau of Labor Statistics, <https://www.bls.gov/cpi/>
9. Euro area inflation from the European Central Bank, https://www.ecb.europa.eu/stats/macroeconomic_and_sectoral/hicp/html/index.en.html

Get In Touch



If you would like to discuss the results of our survey, or any other thoughts on inflation, please contact us directly, or at survey@marcuson.co

We'd be grateful for your thoughts on inflation for Q4 and beyond. Please click the link below to take part.

[CLICK HERE FOR THE Q4 SURVEY](#)



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