Beazley Logo

Article

The Impact of Inflation on Healthcare

September 22, 2023

Inflation continues to be a major headline in the U.S. with every industry and sector now feeling the repercussions of the nation's current economic climate. With the healthcare industry no exception, the Healthcare Management Liability market can expect to see direct impact in the coming months.

Staffing challenges are driving healthcare industry concerns

The healthcare industry has traditionally been described as recession-proof, and indeed, from a healthcare perspective, the cost of medical services has lagged slightly compared to other parts of the economy. Latest Consumer Price Index numbers over a 12-month period show the largest price increases for food (+10.4%), energy (+41.6%) and new vehicle sales (+11.4), with healthcare services lagging at +4.8%*.

The Healthcare Management Liability market is feeling the impact

From an insurance claims standpoint, we are already seeing social inflation increasing the cost to litigate and settle employment related claims, especially physician retaliation claims. The social inflation phenomenon partially reflects increasingly negative attitudes towards large healthcare systems, which has resulted in juries awarding more money to claimants. The larger judgments, in turn, have encouraged plaintiffs to be more aggressive and less willing to settle, protracting litigation and increasing cost of defense and settlement across the board. Beyond the EPL context, we could also see antitrust concerns related to price gouging for healthcare staffing firms who are posting large margins and arguably "exploiting" the pandemic. These dynamics, coupled with the consequences of economic inflation on settlement values and defense costs, have increased risk exposure across the HML book.

An economic slowdown could affect patient volumes, decrease investment in healthcare, and add financial distress to company

balance sheets, all of which could prompt D&O-related matters. In effort to reduce financial loss, companies may cut costs of compliance functions which could lead to inadvertent errors and omissions.

The signs of recession are all around us

The latest inflation numbers of 8.5% and consistent fed rate hikes in 2022 to combat this over-supply of money through contractionary fiscal policy are just the latest signs of a looming recession. And the recent spike in weekly jobless claims from a recent low of 170,500 to 254,000 as of Aug 4th** reflects a shift in the labor market further supporting future Fed rate hikes.

A rise in interest rates will make it tougher for all businesses, including medical providers, to operate, leading to an economic slowdown. This, in turn, could prompt further layoffs, leading to a rise in the employment claims which are generally positively correlated with a recession.

Regardless of how the economic climate in the U.S. plays out over the coming months, the healthcare industry should not expect to emerge unscathed. A strong risk management partner can help businesses in this sector to ensure that they are well prepared and adequately covered for the challenges that lay ahead.

*Consumer Price Index Summary - 2022 M06 Results (bls.gov)

**US weekly jobless claims rise to 260,000 ahead of nonfarm payrolls report (cnbc.com)

The information set forth in this document is intended as general risk management information. It is made available with the understanding that Beazley does not render legal services or advice. It should not be construed or relied upon as legal advice and is not intended as a substitute for consultation with counsel. Beazley has not examined and/ or had access to any particular circumstances, needs, contracts and/or operations of any party having access to this document. There may be specific issues under applicable law, or related to the particular circumstances of your contracts or operations, for which you may wish the assistance of counsel. Although reasonable care has been taken in preparing the information set forth in this document, Beazley accepts no responsibility for any errors it may contain or for any losses allegedly attributable to this information.

Home

©Beazley Group | LLOYD's Underwriters