December 3, 2025

Market Segment Outlook: US Commercial Lines

The segment's outlook remains at Stable owing to improved investment returns despite continued elevated casualty and property claims severity

AM Best is maintaining its outlook for the US commercial lines segment at Stable, supported by the following key factors:

- Strong underwriting and overall operating performance despite varying fortunes for specific lines of business and economic and capital market volatility.
- Sustained risk-adjusted pricing strength for most business classes and moderating inflationary trends.
- Improved investment returns bolstering operating profitability, supporting longer-tailed casualty lines.
- A stable reinsurance market and expanding capacity that supports coverage enhancements.
- Disciplined risk selection, terms and conditions, and capacity deployment.

Near-term concerns include the following:

• Certain casualty lines of business continue to develop adversely, offset by favorable development in workers' compensation.
• Elevated claims costs, reflecting the multi-year impact of social inflation, with adverse implications for underwriting and reserve margins.
• Relatively high property claims costs, despite moderation in inflationary pressures.
• Elevated geopolitical risks and near-term policy concerns, including the impact of tariffs.

The Stable outlook reflects AM Best's expectation that the US commercial lines segment will remain profitable in aggregate and will be resilient in the face of near- and longer-term challenges. The Stable outlook is also predicated on the fact that several sub-segments with Stable outlooks (particularly workers' compensation and E&S) have robust margins. While the General Liability subsegment has a Negative outlook, this concern is somewhat mitigated by ongoing rate increases and investment returns in this long-tailed business.

AM Best expects that the risk-adjusted capital of the majority of segment carriers will remain sound. The Stable outlook also considers the dynamics of the major underlying subsegments that comprise the overall commercial lines segment. These include AM Best's Stable outlooks on the commercial property, workers' compensation, surety, medical professional liability, and title and mortgage insurance lines of business, which in aggregate account for over 40% of segment premiums, as well as on the excess & surplus lines (E&S) marketplace. These Stable outlooks are offset by our continued Negative outlooks on major commercial casualty lines, including general liability, commercial auto, and directors & officers (D&O) insurance.

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Improved fixed income investment returns have been an important tailwind helping to alleviate pressures on long-tailed casualty lines of business that remain exposed to adverse reserve development and a challenging litigation environment. These considerations support a Stable outlook.

Admitted carriers are maintaining caution in both the property and liability lines, leading significant numbers of commercial insureds to seek coverage in the E&S market, which continues to benefit from favorable deal flow, given significant new entrants.

Commercial insurers are leveraging technology and innovative products, including artificial intelligence (AI), to enhance underwriting and pricing decisions. At the same time, a more direct focus on loss control and claims management is resulting in lower claims frequency and severity.

Robust Underwriting and Operating Performance Despite Variability Across Lines of Business

US commercial lines insurers overall reported favorable underwriting and operating results through the first three quarters of 2025, as evidenced by composite combined ratios remaining in the mid-90-percent range. Operating ratios (which consider investment income on the substantial asset base backing commercial insurers' reserves, an especially significant consideration for long-tailed commercial casualty insurers) remain in the low-to-mid 80-percent range. These results support returns on capital of around 10% for insurers comprising the commercial lines composite, and represent a significant improvement over the average combined and operating ratios for the prior three years.

Results by major line of business within the commercial lines segment vary significantly. Underlying the segment's strength is workers' compensation, with its combined ratio near 90% for the last five years, supported by sustained favorable reserve development on prior years. Commercial property has performed well and continues to improve, much less affected by catastrophe losses than the homeowners line, with a combined ratio of 88% in 2024. The general liability line (other liability–occurrence) continues to suffer from adverse claims trends affecting current and prior periods and experienced a particularly bad year in 2024, with a combined ratio of 120%. Commercial auto struggles with a combined ratio that has been consistently over 100% despite rate increases. Most notable among the headwinds has been social inflation affecting casualty lines (including excess and umbrella coverages, which are a component of general liability), as well as further additions to reserves for asbestos, environmental, and other mass-tort prior year liabilities, although the impact of the latter on commercial casualty insurers is diminishing. These considerations largely underlie AM Best's sustained Negative outlooks for the commercial general liability and commercial auto subsegments, as well as D&O insurance.

AM Best expects that commercial lines insurers will sustain their overall solid performance in the medium term, driven by moderate overall pricing gains in most lines of business, as well as continued moderate growth in net premiums written.

Pricing is Well Off Its Peak, But Remains Favorable for Most Major Commercial Lines

Following a multi-year peak in late-2020/early-2021, premium rates for most of the major commercial lines of business continued to rise, albeit at a slower pace than in prior years, with rate-on-rate pricing gains fueling commercial insurers' underwriting performance into mid- to late-2025. A notable exception has been workers' compensation, whose multi-year underwriting performance has been the strongest of the segment and whose premium rates are also the most tightly regulated, resulting in a stream of rate decreases. The line's positive underwriting margins reflect higher payrolls and total pricing, as well as favorable reserve development from prior years, driven primarily by lower-than-historical claims frequency.

According to the Council of Insurance Agents and Brokers' (CIAB) latest quarterly report, commercial lines pricing overall rose approximately 5% through the first two quarters of 2025, generally consistent with prior quarters, which comes on the heels of positive rate changes since 2020. Commercial property rates decreased for the first time since 2017 owing largely to increased capacity and a softer reinsurance market. Workers' compensation pricing has declined modestly, by 1% to 2% per quarter, reflecting a long-term trend. Commercial auto, a historically underperforming line due to its risk characteristics and sensitivity to qualified labor supply and demand, has nevertheless seen consistent quarterly pricing increases in the high-single-digit percentage range. General liability has seen a more tepid but still favorable change in the 5% range, which AM Best views as reasonably close to current claims cost trends, while umbrella, a more leveraged line of business, continues to experience pricing changes in the 10% range, albeit down sharply from prior highs. Financial lines—including D&O and cyber—have also seen a modest decline.

Overall, underwriting remains prudent, although insurers are growing more flexible in highly competitive lines of business, such as property, cyber, and D&O. Insurers remain more cautious in casualty, especially as it relates to US automobile and excess casualty coverages. Insurers are more conservative about providing high limits for certain property catastrophe risks, as well as for US excess casualty, where additional insurers may be required to complete coverage towers.

Improved Investment Returns Bolster Operating Margins Despite Capital Market Volatility

Helping to offset moderating, but still positive, rate and premium increase trends is the significant impact of improved investment income for US commercial insurers. This is particularly the case for longer-tailed commercial casualty lines (most notably workers' compensation, general liability, and commercial auto liability, as well as professional and management liability lines), which hold the vast majority of reserves in the commercial lines sector, and the invested assets that support them. US commercial insurers' securities portfolios are overwhelmingly invested in investment-grade, fixed-income securities, generally held to maturity, significantly mitigating the likelihood of realized investment losses. Bonds comprise approximately 70% of commercial P/C insurers' investment portfolios, with short-term fixed-income investments and cash comprising approximately another 10%, resulting in interest income being the key driver of overall investment performance for the segment.

Inflationary pressures have affected commercial insurers' underwriting and reserving margins, but the rise in interest rates in 2022-2023, despite recent easing, has provided a significant tailwind for commercial insurers. Net investment income for the commercial lines composite increased to 4.6%, an approximately 8 percentage point improvement for the first half of 2025 over the prior year period, significantly exceeding premium growth trends and boosting pre-tax operating income.

Claim Trends Throw Spotlight on Aggressive Litigation Tactics, Umbrella, and Cyber Exposures

Multiple factors are contributing to the stubbornly heightened frequency of large claims across multiple P/C lines of business, including social inflation related to rising jury verdicts, third-party litigation funding, increased plaintiffs' bar sophistication and litigation strategies, geopolitical instability, extreme weather, cyber threats, and supply chain challenges.

The plaintiffs' bar continues to employ aggressive litigation tactics, including "anchoring" (in which elevated claim values are suggested to juries to drive up awards) and "reptilian strategies" (a trial strategy designed to make the jury dislike the defendants so strongly as to award excessive damages). Litigation financing has become a significant factor in mass tort litigation and can be a major contributor to lengthening claims settlement periods and costly verdicts. For their part, insurers are engaged in lobbying efforts to drive tort reform in the worst-affected US states.

These trends increase the likelihood of nuclear verdicts, which tend to pierce the limits of underlying primary coverages, triggering claims on excess and umbrella coverages that attach above them. These verdicts have been mainly concentrated in product liability cases, as well as intellectual property and motor vehicle cases. These high severity losses have in turn prompted a reduction of capacity and limits, as carriers seek to mitigate losses, and is a factor driving firmer umbrella market conditions.

Nuclear verdicts are pervasive in the US, particularly in personal injury lawsuits involving automobile accidents, products liability claims, and medical malpractice liability. Meanwhile, commercial automobile claims continue to increase in frequency and severity, with higher repair costs, a shortage of experienced drivers, a proliferation of distracted driver issues, and verdict and settlement inflation. Now a fixture of insurance programs, cyber insurance is an ever-rising consideration as the threat of data breaches and other cyber-attacks increases. Awareness around cybersecurity has increased significantly but the cyber-related attacks and costs have continued to rise, creating a leading risk hot-spot for insureds and insurers alike.

The emergence of new sources of liability is an ever-present exposure for commercial casualty insurers, particularly latent risks in emerging products and technologies, which could result in financial losses to insurers and insureds. Worsening litigation trends and skepticism against insurers and corporations could result in verdicts that balloon to significant amounts. In addition, climate-related casualty litigation, mental health issues caused by technology, and forever chemicals (PFAS) could develop adversely for insurers. Much uncertainty remains, and AM Best is monitoring developments in these areas.

Although well below the pandemic-period highs, economic inflation continues to push insurance claims higher as the cost of raw materials, labor, and supply chains has risen. Furthermore, US trade tariffs and global counter-tariffs are causing uncertainty to organizations with longer or more complicated supply chains.

Insurers Ramp Up Investments in Data/AI-Backed Risk Analytics for Pricing and Risk Selection

Commercial and specialty insurers are increasingly acquiring or making investments in innovative technologies, most notably rapidly emerging AI tools, to keep up with evolving market practices and to gain an edge over their competitors with respect to data access and risk selection. Speed of response is essential to the highly commoditized small- and medium-sized risk marketplace, where consistency and streamlined and frictionless processing are essential for agents and insurers.

Key areas of focus include predictive analytics (telematics and other behavior-based data gathering and monitoring) to better match price with risk and to provide real-time individual risk-adjusted ratemaking, and the utilization of 'big data' and AI to discover and leverage more nuanced relationships between risk and return.

Firms that can bring value-added data solutions and the ability to combine data sets in ways that create real value for underwriters, claims adjusters, and actuaries will benefit. Other areas of focus revolve around solutions related to operational efficiency or process automation and enhancing distribution reach, especially embedded insurance, which has seen significant growth. Insurers favor insurtech solutions that offer the ability to mitigate risk and provide data for both customers and risk managers. Insightful data sources and effective risk mitigation products are where insurers will find compelling value as these capabilities improve both the customer experience and insurers' operational performance.

Solid Risk-Adjusted Capitalization Underlies Financial Strength for the Commercial P/C Segment

Notwithstanding significant challenges posed by natural and man-made catastrophes, geopolitical stresses and macroeconomic volatility, and an ever-changing claims and aggressive litigation environment, the US commercial lines segment remains well capitalized on a risk-adjusted basis. Our assessment of capital strength also considers the segment's dependence on reinsurance, its overall reserve strength, and build-up of organic capital through risk-adjusted pricing. The investment profile remains conservative with an eye toward liquidity. This reflects the segment's overall vigilance with respect to risk-adjusted pricing, including the often volatile reinsurance costs; its robust, if occasionally tested, reserving postures; and a conservative investment and liquidity profile.

The Stable outlook for the commercial lines segment indicates that AM Best expects market trends to have a neutral impact on companies operating in the segment, but it does not mean that all companies operating in the segment also have a Stable outlook. While aggregate conditions and results improve, carriers who have been unable to manage the tumultuous recent past will likely face ratings pressure.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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