News Brief

MST INSURANCE SOLUTIONS

Stable Outlook Continues for the U.S. Commercial Lines Market

"Persistently strong" underwriting performance and solid investment returns prompted a continued stable outlook for the U.S. commercial lines sector, according to a market segment report from AM Best.

"Our expectation is that the U.S. commercial lines segment will remain profitable in the aggregate and will be resilient in the face of near- and longer-term challenges," said Alan Murray, director with AM Best, in a statement.

Pricing is "well off its peak" but still favorable for most lines of business, AM Best said in the report. Insurers have also made strides in sustaining reserve adequacy—though this varies by line, the firm said. The industry has also maintained underwriting discipline, focused on terms and conditions, and judicious deployment of capacity, per the report, which has had the effect of sending more business to the excess and surplus lines (E&S) market.

"Admitted carriers appear to be maintaining caution in both 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," AM Best said in its report. "Among the lines often being offered to the E&S segment are commercial auto and D&O liability, as well as high-risk and catastrophe-exposed property, cyber and other high-volatility coverages."

AM Best observed different forces and market conditions for the three main commercial segments – property, casualty, and workers' compensation.

The primary property market has seen competition increase in 2024 as reinsurance pricing stabilized. The ratings firm said that the impact of Hurricanes Helene and Milton in Q3 and Q4 would likely keep property reinsurance prices firm in 2025, but not to the degree the market hardened in 2023.

Workers' compensation continues to be the most profitable commercial line, "set to enter its second consecutive decade of uninterrupted underwriting gains." However, should workers' compensation rate decreases continue, the line would have a narrower margin to offset deterioration in other liability lines.

This is because rising claim frequency and severity have pushed casualty loss ratios (and premiums) up, AM Best noted.

And, while property reinsurance stabilized, reinsurers have shown less appetite for casualty lines, particularly for businesses exposed to the social inflation trends in the U.S.

AM Best predicted more selectiveness on the part of reinsurers, which could harden the market for casualty just two years after the "shock renewal adjustments" for property.

"2025 will likely compress underwriting and operating margins," AM Best said. "Commercial auto and product liability are facing a heightened risk of rising nuclear verdicts fueled by third-party litigation financing, and we expect rates to increase in these lines to keep up with this trend."