ZYWAVE
INSURING GROWTH

2025 Commercial Market Outlook Executive Summary

Over the past several years, the commercial insurance sector has faced consistent headwinds due to rising claim frequency and severity, social inflation, evolving cyber risks, and continued losses from catastrophic natural disasters – all contributing to a prolonged hard market. During this time, carriers responded by tightening underwriting standards, reducing capacity and increasing premiums across most lines of coverage.

In order to make sure you and your clients stay protected and informed, it's essential to have a thorough understanding of the market and forces shaping it. Read on to learn more about what events influenced the insurance market in 2024 and what you can expect in 2025.

***Please note:** This is a high-level summary. A full copy of the report, complete with an analysis into individual lines of coverage, is available within the Zywave Content Cloud.*

SIGNS OF MARKET SOFTENING, BUT CONCERNS REMAIN

2024 showed signs of market moderation, with certain insureds beginning to benefit from more favorable conditions for certain lines of insurance. In the first quarter of 2024, the U.S. commercial insurance sector registered its best underwriting result in over 15 years.

Several factors are driving softening market conditions. As inflation eased, claims cost growth slowed. Additionally, the strong premium growth over recent years allowed insurers to keep pace with escalating claims costs, especially those linked to natural disasters, further supporting overall profitability.

Initial expectations for the market in 2025 are largely positive. Many policyholders with favorable risk profiles may experience relatively stable or competitive rates in certain lines of coverage. Further, reinsurance capacity is cautiously expected to increase by the end of 2024. However, several challenges have the potential to destabilize the market. Natural disasters in the third and fourth quarters of 2024 caused billions in damages and created future price uncertainty. Additionally, geopolitical conflicts could disrupt global supply chains and reignite inflationary pressures. Beyond that, evolving risks related to AI and increased regulatory scrutiny could create a challenging market for insurers and insureds alike.

THE INSURANCE MARKET CYCLE: HARD VERSUS SOFT MARKETS

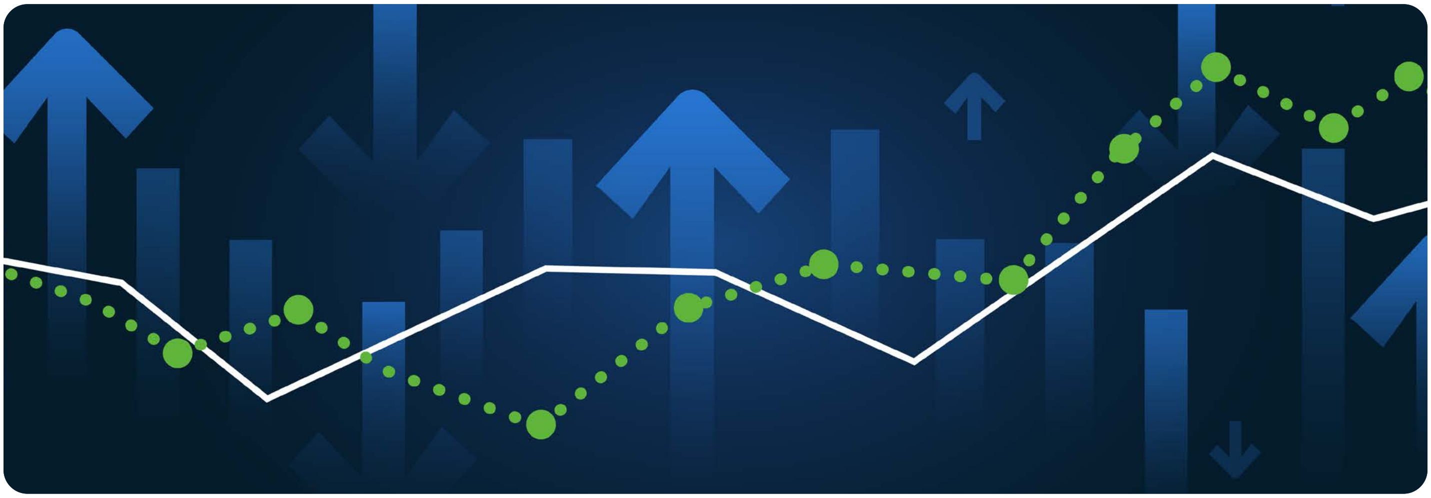
The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. These cycles affect the availability, terms, and price of commercial insurance, so it's helpful to know what to expect in both a hard and soft insurance market.

Hard Market (sometimes called a seller's market):

Characterized by increased premium costs, strict underwriting criteria, less capacity, restricted terms of coverage, and less competition among carriers.

Soft Market (sometimes called a buyer's market):

Characterized by stable premiums, broader terms of coverage, increased capacity, higher available limits, and competition among carriers.



From the late 1980s to the early 2000s, businesses across most lines of insurance enjoyed stable premiums and expanded terms of coverage in what was one of the longest soft markets in recent memory. However, after years of gradual changes, the market largely firmed from the late 2010s to 2023, leading to increased premiums, reduced capacity and a hard market for many policyholders.

Going into 2025, the market is finally expected to soften for certain lines of coverage, building off the momentum and easing conditions created in 2024.

MANY FACTORS AFFECT INSURANCE PRICING BUT THE FOLLOWING ARE SOME OF THE MOST COMMON CONTRIBUTORS TO MARKET CHANGES:

Catastrophic (CAT) losses

Floods, hurricanes, wildfires and other natural disasters are increasingly common and devastating. Years of costly disasters like these have compounded losses for carriers, driving up the cost of coverage overall, especially when it comes to commercial property policies.

Inconsistent underwriting profits

When an insurance company collects more in premiums than it pays out in claims and expenses, it will earn an underwriting profit. Conversely, an insurance company that pays more in claims and expenses than it collects in premiums will sustain an underwriting loss. The company's combined ratio after dividends is a measure of underwriting profitability.

Mixed investment returns

When interest rates are high and returns from other investments are solid, insurance companies can make up underwriting losses through their investment income. But when interest rates are low, carriers must pay close attention to their underwriting standards and other investment returns.

The economy

During periods of economic downturn and uncertainty, some businesses may purchase less coverage or forgo insurance altogether. Additionally, a business's revenue and payroll may decline and create an environment where there is less premium income for carriers.

The inflation factor

Prolonged periods of inflation can make it challenging for insurance carriers to maintain coverage pricing and subsequently keep pace with more volatile loss trends. Unanticipated increases in loss expenses can result in higher incurred loss ratios for insurance carriers, particularly as inflation affects key cost factors.

The cost of reinsurance

Reinsurance helps stabilize premiums for regular businesses by making it less risky for insurance carriers to write a policy. However, reinsurers are exposed to many of the same events and trends affecting insurance companies and make pricing adjustments of their own.

Additional Factors Influencing Insurance Rates

In addition to the above, here are other key factors that may influence your insurance rates:

- **The coverage you're seeking**
- **The size of your business**
- **The industry in which you operate**
- **The strength of the leadership team**
- **The company's financial strength**
- **The location of your business**
- **Your claims history**
- **Your risk management practices**

TRENDS TO WATCH IN 2024

Extreme Weather Events

Extreme weather events continue to make headlines as they become increasingly devastating and costly. What's worse, these events aren't limited to one geographic area; they impact businesses across the United States. In 2024 (as of Oct. 31), there were 24 weather and climate disasters in the United States where losses exceeded or were expected to exceed $1 billion. Severe convective storms were a primary driver of losses, especially at the beginning of the year. Other notable events include the Texas panhandle wildfire – the state's largest wildfire on record – and two headline-stealing hurricanes: Hurricane Helene and Milton.

Geopolitical Upheaval

This past year saw the continuation of severe geopolitical upheaval and international disruptions, particularly those relating to the ongoing Russia-Ukraine conflict, shifting trade dynamics between China and the United States, rising tensions amid the Israel-Hamas war and growing nation-state cyberthreats. These global events have had far-reaching impacts, prompting new tariffs, export restrictions, economic sanctions and coverage exclusions. Further, such events have exacerbated existing technological challenges, inventory backlogs, material shortages and supply chain issues.

Social Inflation Concerns

Social inflation refers to societal trends that influence the ever-rising costs of insurance claims and lawsuits above the general economic inflation rate. According to the National Association of Insurance Commissioners, the "social" aspect of this term represents shifting social and cultural attitudes regarding who is responsible for absorbing risk. As the commercial insurance sector shifts, it's essential to understand what's currently driving social inflation.

AI Developments

AI technology, which has surged in popularity in recent years, encompasses machines and devices that can simulate human intelligence processes. Applications of this technology are widespread, and according to the International Data Corporation, the market for AI technology and other cognitive solutions is projected to exceed $60 billion by 2025, up from $1 billion in 2015. In light of this growth, businesses must understand the benefits and ramifications of such technology.

AI liability is a real threat. Claims can arise for a myriad of reasons, including AI-related errors and biases. As AI technology advances and becomes more integrated into various aspects of society, the demand for insurance coverage will likely expand.

Reinsurance Optimism

In recent years, the reinsurance segment has faced substantial challenges. Specifically, increasing demand for reinsurance products and an increase in CAT losses have led reinsurers to make significant payouts, impacting their profitability and creating challenging conditions across multiple lines of coverage. Going into 2025, expectations are mixed regarding reinsurance pricing trends. There are concerns from reinsurers that rate increases in 2024 have not been sufficient to address rising loss costs, especially given CAT loss trends.

Economic Pressures

Surging inflation has been a persistent concern in the commercial insurance space over the last few years, resulting in eroding investment income, higher administrative costs among carriers, increased claim expenses and rising premiums. Such inflation reached a peak in 2022, evidenced by the highest consumer price index (CPI) in 40 years.

Although inflation began to cool throughout 2023 and 2024, and the CPI rose just 2.4% year over year in September 2024, core CPI forecasts a possible stabilization near 2.5% by mid-2025. Outside factors – like strong wage growth in service industries, rising oil and shipping costs and consistently high housing costs could still exert upward pressure on inflation.

Remote Work

In recent years, many employers have revamped their remote and hybrid work arrangements. These arrangements can lead to increased productivity, fewer costs, and improved flexibility and workplace perks. Although implementing a work-from-home program can provide a wide range of benefits for businesses, allowing staff to work remotely also comes with unique risks and challenges employers may still need to navigate in 2025.

2025 MARKET OUTLOOK FORECAST TRENDS

Price forecasts are based on industry reports and Zywave surveys for individual lines of insurance. Forecasts are subject to change and are not a guarantee of premium rates. Insurance premiums are determined by a multitude of factors and differ between businesses. These forecasts should be viewed as general information, not insurance or legal advice.

Commercial Property: **Non-CAT:** Flat to +10% **/CAT-exposed:** +5% to +15%
(More favorable increases are predicted for high-quality CAT-exposed risks)

General Liability: +1% to +9%

Commercial auto: +5% to +15%

Workers' compensation: -2% to +2%

Cyber: -5% to + 5%

D&O: **Private/nonprofit entities:** -5% to flat **/Public companies:** -10% to flat

EPL: -5% to +5%

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