Executive Summary: Is Your Investment Portfolio Keeping Pace with Your Claims?

Many property and casualty insurers take comfort when their investment portfolio outperforms the Bloomberg U.S. Aggregate Bond Index or another traditional fixed income benchmark. While this may demonstrate investment manager skill, it does **not** answer the more important fiduciary question:

Is your investment portfolio keeping pace with the growth in your insurance liabilities?

Our latest research examines one of the most significant yet frequently overlooked risks facing insurance companies today—**the persistent gap between portfolio returns and claims cost inflation.**

Although industry underwriting results reached historic profitability in 2025, our analysis finds that structural claims inflation remains firmly embedded across many lines of business. Long-tail casualty exposures continue to experience loss cost trends well above general inflation, driven by social inflation, litigation funding, rising jury awards, medical costs, and increasing claim severity. Over time, these forces can erode surplus, pressure reserve adequacy, and increase future capital requirements if investment returns fail to keep pace.

Perhaps the report's most important conclusion is this:

Beating a market benchmark is not the same as preserving an insurer's financial position.

An investment portfolio that outperforms its benchmark but consistently trails the organization's own claims inflation may still represent a long-term funding shortfall. Conversely, a thoughtfully constructed Strategic Asset Allocation (SAA) can often improve expected returns through diversification—without requiring a proportional increase in overall portfolio risk.

Why This Matters

If your organization has not recently evaluated whether its investment strategy is aligned with its claims cost trend, reserve development, and capital objectives, now may be the time.

Questions every board and investment committee should consider include:

- Is our portfolio being measured against the right benchmark?
- Are expected investment returns sufficient to support our long-term liabilities?
- Could a more diversified Strategic Asset Allocation improve our ability to preserve surplus without materially increasing portfolio risk?

- Are we treating our investment portfolio as an integral part of enterprise risk management rather than simply a source of income?

The answers may have a far greater impact on your organization's long-term financial strength than incremental manager outperformance alone.

We invite you to read the complete research report, which provides a detailed actuarial analysis of U.S. claims inflation trends, their implications for insurers, and practical considerations for boards evaluating investment strategy. If the report raises questions about your own investment program, CapVisor Associates would welcome the opportunity to perform an independent review of your Strategic Asset Allocation and investment policy to determine whether your portfolio is positioned to keep pace with tomorrow's liabilities—not just today's market benchmarks.