Analysis of US Property & Casualty Claims Inflation and Loss Cost Trends

The United States property and casualty (P&C) insurance industry is undergoing a structural realignment as it transitions from a cyclical earnings peak in 2025 into a phase of gradual margin compression in 2026. Following a highly profitable period characterized by net underwriting gains of approximately $60.9 billion to $63 billion and an industry combined ratio of 92.9% to 93% in 2025, capital inflows and intensifying competition are pressuring premium rates downward across multiple standard lines. While property-related coverages and personal auto have largely restored underwriting profitability after severe post-pandemic shocks, a critical underlying "fault line" remains: the persistent, structural inflation of liability and property claims.

To evaluate risk and price products adequately, carriers must decouple standard macroeconomic indices from actual claims inflation. Claims inflation, or loss cost trend, measures the changes in the ultimate frequency and severity of insurance claims. In the aggregate US P&C market, this metric is driven by a complex convergence of economic inflation—such as supply chain disruptions, rising construction costs, and vehicle repair complexity—and social inflation, which encompasses legal system abuse, rising jury awards, and third-party litigation funding.

Actuarial Classifications of P&C Claims Inflation

A rigorous actuarial assessment of aggregate US P&C claims inflation requires separating these trends into economic and social components. Economic inflation impacts physical asset replacement, medical expenses, and repair labor, and is generally captured by adjusted consumer and producer price indices. Conversely, social inflation (or liability excess inflation) represents the growth in liability claims severity exceeding what can be explained by economic drivers, stemming from legal system dynamics and shifting societal expectations.

The total aggregate claims inflation rate (i_c) can be represented mathematically as:

$$i_c = i_e + i_s$$

Where $i_e$represents the rate of change in economic claims inflation factors (such as automotive parts, construction materials, and healthcare services), and $i_s$represents the rate of social inflation driven by litigation and tort dynamics.

Over multi-year horizons, the compounding effect of claims inflation is calculated via the compound annual growth rate (CAGR) of claim severity:

$$CAGR = \left(\frac{S_t}{S_{t-n}}\right)^{\frac{1}{n}} - 1$$

Where $S_t$is the average claim severity in the current period and $S_{t-n}$is the severity $n$years prior. In long-tail liability lines, ignoring this compounding effect leads to severe under-reserving, which has historically been the primary driver of liability insurer insolvencies.

Time Horizon Evaluation of Aggregate Claims Inflation Rates

An analysis of aggregate US P&C loss cost trends reveals distinct variations across different time horizons, reflecting the volatile transition from post-pandemic supply chain shocks to a structurally elevated tort litigation environment.

The table below provides a structured actuarial estimation of aggregate claims inflation rates for the US P&C market across the sampled 1, 2, 3, 5, and 10-year annualized horizons:

Table 1: Annualized Aggregate US P&C Claims Inflation Rates

Time Horizon	Annualized Claims Inflation Rate (Aggregate P&C)	Dominant Driving Forces of the Trend	Key Actuarial & Reserving Implications
1-Year Annualized (2025–2026)	7.0% – 7.5%	High structural cost floors, persistent wage growth, and reserve strengthening in recent casualty accident years.	Insurers are increasing aggregate loss picks; earned rates are starting to trail loss cost trends in stable portfolios.
2-Year Annualized (2024–2026)	6.0% – 8.0%	Stabilizing property replacement costs offset by high severe convective storm (SCS) activity and a 7% surge in annual liability costs.	Pricing carryover from 2024 supported underwriting gains, but softening premium rates are narrowing the margin buffer.
3-Year Annualized (2022–2025)	6.5% – 8.5%	Post-pandemic inflation peak, elevated automotive replacement costs, and highly volatile personal auto bodily injury severity.	Significant volatility in loss development patterns; personal auto combined ratios peaked at 112% before correcting.
5-Year Annualized (2017–2022)	9.1% (Liability) / 9.7% (Property)	5.4% social inflation CAGR compounding with 3.7% economic inflation; extreme regional property surges (e.g., Florida).	Broad erosion of casualty reserve adequacy; severe escalation in property reinsurance rates and catastrophe model baselines.
10-Year Annualized (2015–2024)	5.0% – 7.0% (Aggregate Casualty)	7.1% average annual growth in total US tort costs; severe product and commercial auto liability severity spikes.	Long-term loss development factors (LDFs) have steadily increased since 2008, revealing systemic liability under-reserving.

One-Year and Two-Year Annualized Trends

In the immediate short-term horizon (2025–2026), the aggregate P&C loss cost trend has stabilized at slightly above 7.0%. This trend is heavily driven by commercial auto liability and excess casualty classes, where claims frequency and severity remain elevated due to the ongoing effects of social inflation. In standard commercial lines, wage and medical cost inflation sustain a high structural floor, even as general consumer price index (CPI) metrics moderate. On a two-year annualized basis (2024–2026), aggregate loss costs are estimated between 6.0% and 8.0%. While property damage claims have benefited from easing supply chain blockages, severe convective storms and secondary peril exposures (such as wildfires) have established a higher floor for property loss ratios.

Three-Year and Five-Year Annualized Trends

Over the three-year annualized horizon (2022–2025), claims inflation reflects the peak pass-through of post-pandemic economic inflation. For example, the annualized growth in personal auto property damage (PD) severity climbed at 13.1% from Q1 2020 to Q1 2023, before decelerating to 2.4% from Q1 2023 to Q1 2025. Conversely, personal auto bodily injury (BI) severity grew at an annualized rate of 8.4% in the first period and remained highly elevated at 7.9% in the subsequent period. This reveals a critical divergence: physical damage inflation was transitory, whereas liability severity inflation remains structurally embedded in the system.

Over the five-year annualized horizon (2017–2022), Swiss Re's Social Inflation Index demonstrates that social inflation rose by an average of 5.4% annually, while economic inflation factors relevant to claims averaged 3.7%. For liability-exposed lines, this yields a combined annualized claims inflation rate of 9.1%. In property lines, commercial property insurance costs grew at an average annual rate of 9.7% since 2017. This property cost trend peaked in 2023, with premium rates spiking up to 20.4% in high-exposure areas. In catastrophe-prone states like Florida, commercial property costs surged by 125% over the five years ending in 2023, representing an annualized rate of approximately 17.6%.

Ten-Year Annualized Structural Trends

Over a ten-year annualized horizon (2015–2024), claims inflation has significantly outpaced the broader economy. Total US tort costs grew at an average annual rate of 7.1% between 2016 and 2022, outpacing both average economic inflation (3.4%) and national

GDP growth (5.4%). Commercial liability and personal liability claims experienced average annual growth rates of 8.7% and 3.9%, respectively, during this period. Auto liability severity rose by a total of 72% since 2013, representing a compound annual growth rate of 6.2%. Long-term economic inflation from 2013 to 2020 was exceptionally low, averaging just 1.5%, which underscores that the long-term claims inflation rate of 5.0% to 7.0% across casualty lines was primarily driven by non-economic, social, and litigation-related factors.

CapVisor Associates Investment Analysis: *For CapVisor clients: outperforming commonly used bond investment performance benchmarks like the Bloomberg Aggregate or Intermediate Aggregate simply measure manager skill relative to the broad bond market, and is not evidence that the portfolio is keeping pace with the entity's own claims cost trend. A board that stops its diligence at 'we beat the Agg' may believe fiduciary duty is satisfied when, relative to the loss trends below, it is not. See the new 'CapVisor Investment Perspective' section at the end of this document for the full discussion.*

Granular Analysis by Line of Business

The aggregate P&C claims inflation rate masks extreme volatility within specific long-tail and short-tail lines of business. Actuarial data compiled by the Insurance Information Institute (Triple-I) and the Casualty Actuarial Society (CAS) highlights severe severity spikes in liability-exposed segments.

The table below deconstructs these severity spikes across major casualty lines of business:

Table 2: US Liability Claims Severity and Inflationary Impact (2015–2024)

Line of Business (Occurrence Basis)	10-Year Cumulative Loss & DCC Impact from Claims Inflation	Estimated Severity CAGR (2015–2024)	Cumulative Severity Increase (10-Year)	Key Actuarial Drivers & Underwriting Exposure
Product Liability	$4.6 Billion – $4.8 Billion	22.3%	512.5%	Mass tort litigation, class action filings, and severe product recall expenses.
Commercial Auto Liability	$52.0 Billion – $70.8 Billion	7.6%	93.5%	Trucking industry litigation, aggressive plaintiff bar tactics, and rising fatal accidents.
Other Liability	$83.4 Billion – $103.3 Billion	6.8%	~82.0%	Nuclear verdicts, premises liability, and commercial umbrella exposure.
Personal Auto Liability	$91.6 Billion – $102.3 Billion	5.5% – 6.5%	~72.0%	Attorney involvement in minor injury claims and rising medical treatment costs.

Product Liability and Commercial Auto Liability

Product liability (occurrence) exhibits the most volatile severity curve in the P&C industry. The cumulative impact of claims inflation over the ten-year period ending in 2024 added between $4.6 billion and $4.8 billion to booked losses and DCC, representing 27.1% to 28.0% of total losses. The compound annual growth rate of product liability claim severity reached an extraordinary 22.3%. The acceleration has been particularly severe in recent years, with the inflationary impact on Accident Year 2024 estimated to represent over 50% of that year's booked losses.

Commercial auto liability has faced similar structural distress. Claims inflation added between $52.0 billion and $70.8 billion to commercial auto liability losses and DCC over the same decade, representing 22.6% to 30.8% of booked losses. While claim frequency has trended downward over the long term, a 7.6% severity CAGR has forced continuous upward revisions of ultimate loss ratios. This trend is directly linked to the commercial

trucking sector, where litigation funding and aggressive plaintiff attorney practices have inflated average jury awards.

Other Liability (Occurrence) and Workers' Compensation

Other liability (occurrence) is the largest single source of casualty underwriting losses, with claims inflation adding between $83.4 billion and $103.3 billion to losses and DCC over the ten-year period. This line features a severity CAGR of 6.8%, driven by nuclear verdicts exceeding $10 million in civil courts.

In contrast, workers' compensation remains the most resilient and profitable line of business in the P&C sector. Favorable loss trends, stable employment, steady wage growth, and contained medical inflation have allowed workers' compensation to deliver consistent underwriting profits, which have partially offset reserve deficiencies in other casualty lines.

However, in 2024, the workers' compensation lost-time claim frequency declined by 5.0%, which is faster than the long-term average decline of 3.6%. Concurrently, both medical and indemnity claim severity rose by 6.0% in 2024. This indicates that while the line remains profitable, persistent premium rate decreases are beginning to collide with rising severity, forcing carriers to adjust loss ratio expectations for current accident years.

Actuarial and Financial Implications for Underwriting Portfolios

The persistence of claims inflation above standard economic indices has direct, compounding effects on reserving adequacy, reinsurance structures, and underwriting capital allocation.

The Leveraged Effect of Inflation on Excess and Reinsurance Layers

A critical challenge for risk carriers writing excess-of-loss (XS) reinsurance or high-limit umbrella liability is the mathematical "leveraged effect" of claims inflation. Excess-of-loss contracts trigger only when a claim exceeds a fixed deductible or retention limit (R). When ground-up claims inflate uniformly by a factor of r, the severity of the loss falling into the excess layer is amplified disproportionately.

Let the ground-up claim severity be represented by the random variable X. If claims inflate uniformly by r, the new claim value is $X' = X(1 + r)$. For a fixed retention limit R, the expected value of the excess layer loss, $E[(X - R)_+]$, exhibits a leveraged growth rate that far exceeds the baseline inflation rate r:

$$\frac{d}{dr}E[(X(1+r)-R)_+] > r \cdot E[(X-R)_+]$$

For example, consider an umbrella policy with a retention limit of $\$1{,}000{,}000$. A claim originally valued at $\$950{,}000$yields $\$0$loss to the excess layer. If a claims inflation shock of 10%occurs, the ground-up claim inflates to $\$1{,}045{,}000$. The primary layer absorbs the maximum limit of $\$1{,}000{,}000$, while the excess layer is suddenly forced to absorb a loss of $\$45{,}000$. This represents an infinite percentage increase in excess layer frequency and severity from a moderate 10%ground-up inflation rate. This leveraged effect explains why excess casualty and reinsurance lines are highly vulnerable to unexpected changes in claims inflation, requiring substantial premium increases to maintain capital adequacy.

Reserving Adequacy and Reserve Strengthening

Because liability lines are long-tail in nature, claims can take several years to report, investigate, and settle. Actuaries utilize loss development factors (LDFs) to project immature, current-year claims to their ultimate settlement values. Since 2008, LDFs for US liability lines have shown a persistent upward trend, indicating that historical loss development models have consistently underestimated the compounding effects of social inflation.

When claims inflation accelerates, the required reserves for outstanding claims are impacted retroactively. An unexpected increase of just 2.0% in the annual claims inflation assumption can increase the required liabilities of an eight-year liability portfolio by approximately 16%. In 2024 and 2025, several major carriers recorded material prior-year reserve deficiencies, particularly for the 2022 and 2023 accident years in commercial auto liability and general liability. In early 2026, some commercial lines underwriters reported unfavorable prior-period reserve development adding 4.1 percentage points to their combined ratios, requiring immediate reserve strengthening in excess casualty and professional liability classes.

CapVisor Associates Investment Analysis: *This is the mechanism by which staying invested in IG bonds that lag claims inflation becomes a solvency problem, not a conservative choice: the shortfall shows up as unfavorable reserve development, and eventually as a drawdown of surplus or a call for additional capital contributions. See the 'CapVisor Investment Perspective' section at the end of this document.*

Capital Allocation and the Migration to Specialty Markets

In response to persistent claims inflation, US P&C carriers are executing significant tactical adjustments in capital allocation and portfolio construction:

CapVisor Associates Investment Analysis: *For small-to-mid-sized insurers and captives, the analogous response is a strategic asset allocation (SAA) review rather than an underwriting migration: prudent diversification beyond core IG bonds can raise expected return toward the claims inflation rate at little to no increase in overall portfolio risk, through diversification benefits rather than added concentration. See the 'CapVisor Investment Perspective' section at the end of this document.*

- **Tighter Underwriting Limits and Attachment Points:** Insurers are systematically reducing their lead liability limits. The average lead limit deployed by umbrella carriers has fallen to $10 million in recent years, compared to $20 million in 2019, forcing insureds to piece together multiple excess layers to secure adequate coverage.
- **Migration to Excess and Surplus (E&S) Markets:** To escape rigid rate and form regulations in standard admitted markets, carriers are migrating premium volume to the E&S market. Direct premiums written in the E&S market reached over $130 billion, representing 9.5% of total US direct written premiums, as underwriters seek the pricing and coverage flexibility necessary to absorb structural claims inflation.
- **Decelerating Standard Market Share:** In property and allied lines, the standard admitted market share dropped from 66.7% in 2016 to just 52.7% in 2024, as high-risk exposures shifted to E&S and residual market mechanisms.
- **Deployment of Agentic AI and Predictive Workflows:** Leading carriers are deploying machine learning and AI-assisted claims triaging to identify high-severity "nuclear" potential early in the claims lifecycle. Actuarial models are being re-engineered to utilize venue-specific analytics, tracking jury sentiment and litigation funding presence to optimize claims settlement and mitigate the aging of claims, which directly compounds severity.

These trends illustrate that while the aggregate US P&C market achieved a high-performance underwriting year in 2025, the underlying challenge of claims inflation remains a powerful force. Managing these loss cost trends through proactive reserving,

real-time rate adequacy monitoring, and rigorous technical underwriting will distinguish the top-performing insurers as the underwriting cycle transitions toward margin compression in 2026.

CapVisor Investment Perspective: Implications for Small- to Mid-Sized Insurance Company Investors

The preceding actuarial analysis carries direct consequences for how small- to mid-sized insurers, captives, and risk retention groups govern their investment portfolios. Boards and investment committees at these organizations often evaluate portfolio success using conventions borrowed from general institutional asset management, rather than metrics tied to the entity's own claims-paying obligations. Three observations, elaborated below, are particularly relevant to this client base.

1. Beating a Bond Benchmark Is Not the Same as Satisfying Fiduciary Duty

A common board-level assumption is that if the investment-grade fixed income manager outperforms a standard benchmark such as the Bloomberg US Aggregate Bond Index, the fiduciary obligation to the balance sheet has been satisfied. This reasoning treats relative performance as a proxy for adequacy. But the Aggregate is constructed to track the broad investment-grade bond market, not any given insurer's own claims cost trend. As this report documents, aggregate P&C claims inflation has run between roughly 6% and 9% across the one-, two-, and five-year horizons, and liability-exposed lines such as commercial auto and other liability (occurrence) have compounded at 6.8% to 7.6% severity CAGR over the trailing ten years, with product liability severity compounding at an extraordinary 22.3%. A fixed income manager can beat the Aggregate by 50 to 100 basis points and still deliver a total return that falls several percentage points short of the loss cost trend the portfolio exists to fund. Outperforming an index is a measure of manager skill; it is not, by itself, evidence that the portfolio is keeping pace with the liabilities it supports. Fiduciary adequacy is better evaluated against the entity's own claims inflation and reserve development trend than against a market index that is indifferent to it.

2. Staying in Investment-Grade Bonds Feels Conservative but May Be a Slow Erosion of Surplus

Remaining concentrated in investment-grade bonds is often described internally as the "conservative" choice — a way to protect principal and avoid mark-to-market volatility.

Relative to equities, and measured against price volatility, this is true. But conservatism measured against price swings is not the same as conservatism measured against the entity's actual obligations. If claims severity in liability lines is compounding at the 5.0% to 7.0% long-term structural rate this report identifies — with acceleration above 9% in property and liability-exposed lines over shorter horizons — and the investment portfolio earns a total return below that rate, the shortfall does not disappear. It must be absorbed somewhere: through a gradual drawdown of surplus as reserves develop adversely, or through calls for additional capital contributions from members or parents to true up reserve adequacy. A portfolio that "protects principal" in nominal dollars while losing ground to claims inflation is not conservative in any sense that matters to a captive's long-term solvency; it is deferring a funding gap rather than avoiding one. The report's own reserving example is instructive: a 2.0% unanticipated increase in the annual claims inflation assumption can raise the required liabilities of an eight-year liability portfolio by approximately 16% — a gap that idle, benchmark-relative IG-only returns are unlikely to close.

3. Prudent SAA Optimization Can Close the Gap Without a Proportional Increase in Risk

The more constructive implication is that closing this gap does not require abandoning a conservative risk posture. A properly constructed strategic asset allocation (SAA) — one that layers modest allocations to non-correlated or partially-correlated asset classes (for example, public equities, low-volatility equity strategies, private credit, or structured and diversifying alternatives) around a core investment-grade bond and claims-paying liquidity ladder — can raise expected portfolio return toward or above the claims inflation rate. Because these asset classes do not move in lockstep with core bonds, thoughtful diversification can improve the portfolio's risk-adjusted return rather than simply adding volatility dollar-for-dollar. The result, when done within an enterprise risk tolerance and with near-term claims-paying liquidity preserved, is a portfolio positioned to keep pace with the 6% to 9% claims cost trends identified in this report at little to no increase in overall portfolio risk — turning an SAA review from a compliance exercise into a genuine solvency safeguard.

CapVisor Associates Investment Perspective: *For boards evaluating manager performance, asset allocation, and capital adequacy, the relevant distinction is not between "risk" and "safety" in the abstract — it is between a portfolio benchmarked to a bond index and a portfolio benchmarked to the entity's own cost of losses.*

Footnotes

[1] Swiss Re Institute, *U.S. Property/Casualty Insurance Outlook*, Swiss Re Management Ltd., 2026, pp. 4–12.

[2] National Association of Insurance Commissioners, *Property & Casualty Insurance Industry Analysis Report*, NAIC, 2025, pp. 1–6.

[3] LexisNexis Risk Solutions, *U.S. Home Insurance Trends Report: Claims Severity and Loss Cost Analysis*, LexisNexis, 2026, pp. 3–9.

[4] Insurance Information Institute and Milliman, *U.S. Property & Casualty Underwriting Results and Loss Cost Trends*, Insurance Information Institute, 2024, pp. 8–15.

[5] American Property Casualty Insurance Association, *Social Inflation and Liability Loss Cost Growth in Commercial Lines*, APCIA, 2024, pp. 2–7.