Trends and Insights:
Commercial Property

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Despite the many challenges posed by external factors, such as climate risk and inflation, the U.S. commercial property segment shows signs of turning a corner in terms of rates and remains on track for stable growth. Double-digit rate increases, particularly for properties in high-risk regions or with poor loss histories, were common in recent years and may continue for high-risk exposures. Strong underwriting performance and improved investment returns, which can bolster operating profitability, may play a crucial role in the medium to longer term.

Commercial lines in aggregate benefited from underwriting margins that outperformed the long-term average despite slowing year-over-year growth in direct premiums written, according to the 2024 S&P Global Market Intelligence U.S. Property and Casualty Industry Performance Rankings report. The top 50 of the 100 evaluated carriers was dominated by commercial line providers, with insurers focusing primarily on commercial property lines capturing three of the top ten spots. In comparison, only two personal lines carriers ranked in the top 50.

A recent McKinsey report, showed that in 2023, the commercial property segment comprised as much as $254 billion (or 26 percent) of global commercial lines premiums across 25 primary carriers, sustaining a net combined operating ratio (COR) of 91 percent – down from a high of 102 in 2020. Analysts predict the global commercial property insurance market may reach as high as $724 billion by 2032, with a compound annual growth rate (CAGR) of 11.3% between 2023 and 2032.

Here are some trends to watch for commercial property insurance in 2025 and beyond.

2024 broke a long-standing trend, setting the stage for a different type of growth.

While factors other than rates reduced overall premium growth in 2023, U.S. growth in commercial P&C insurance lines has been driven almost entirely by higher premiums. However, according to the latest market report from AON, for the first time since 2017 (27 consecutive quarters), commercial property insurance rates broke its upward trend – going from +3.4 in Q1 2024 to - 0.94 percent in Q2 2024.

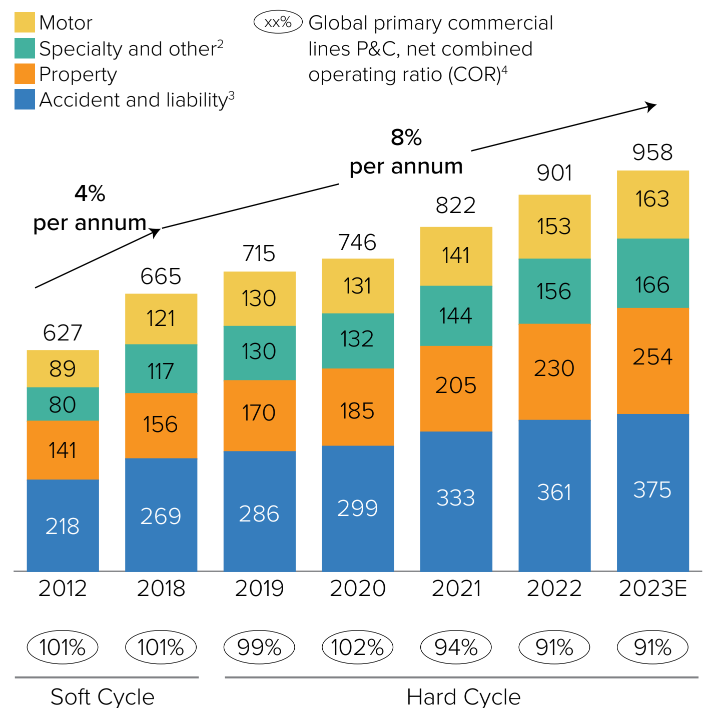
“Deductibles remained consistent for the quarter with 95.4 percent of clients maintaining deductible levels,” the AON report also says. The percentage of clients increasing retention was 4.6 percent, a slight drop from 5.8 percent in Q1. Rate changes were -10 percent to flat depending on account desirability/occupancy or loss challenges, except for in Florida where rate increases soared to 10% or higher for Florida-only accounts and natural catastrophe-exposed accounts Florida accounts.

Increasing climate and catastrophe risk, particularly secondary perils, drive losses.

Despite severe weather in April and May, catastrophe losses in the first half of 2024 were on track to be lower than in recent years while remaining above the 21st-century average. The late surging hurricane season pushed 2024 insured losses from tropical storms in the U.S. to $51 billion, according to a report from Munich Re. Two record-breaking hurricanes comprised 80 percent of this amount, Milton (approximately $25bn) and Helene (roughly $16bn). However, the annual total for 2024 slightly decreased compared to 2021 to 2023.

Climate modeling and research indicate an imminent rise in frequency while the severity of event outcomes – such as the outsized amounts of rainfall during Hurricane Milton and the

Global primary commercial lines property and casualty (P&C) insurance premiums, $ billion[1]



Note: 2023 premiums based on preliminary estimates, 2023 net COR based on reported figures. Figures may not sum, because of rounding.
[1] Based on 2022 average fixed exchange rate.
[2] Includes all other lines (e.g., marine, aviation, transport, credit and surety, agriculture, etc.)
[3] Includes commercial liability, workers' compensation, and commercial accident policies.
[4] Gross written premium weighted average net COR of 25 primary commercial lines carriers.
Source: AM Best; annual reports; McKinsey Global Insurance Pools.

massive storm strength observed during Hurricane Helene – has increased over the years. National Oceanic and Atmospheric Administration (NOAA) data shows that between 1980 and 2024 (as of November 1), the U.S. experienced 400 weather and climate disasters, with overall damage costs for each reaching or exceeding $1 billion. The cumulative cost for these 400 events exceeds $2.78 trillion. To provide some context, the yearly average for events during this period is 8.5, with the annual average for years 2019 to 2023 being 20.4 events. As of this writing, the U.S. experienced 24 events costing at least 1 billion dollars in 2024, down from 28 in 2023.

Reinsurance appetite has kept up with capacity demands, but threats lurk.

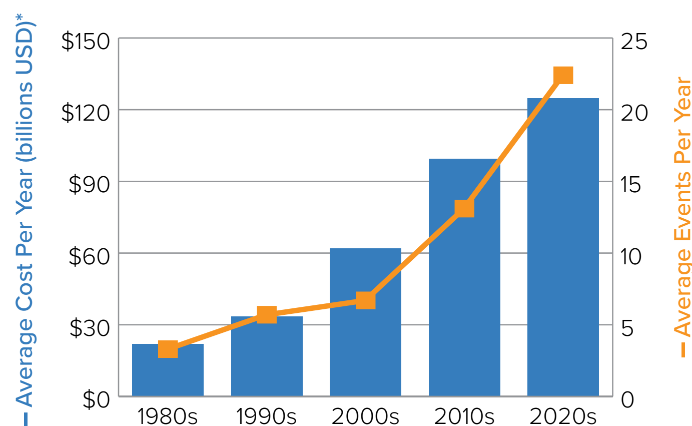
The medium to long-term outlook for commercial property may hinge on whether the reinsurance market becomes more competitive in 2025, given the high frequency of events and losses in 2H 2024. In 2023, reinsurance market dynamics – namely, major changes in policy structures and price increases – compelled insurers to decrease limits and absorb higher retentions. At mid-year renewals, analysts observed "flat to down mid-to high-single digits" reinsurance risk-adjusted rates for global property catastrophes. A Marsh McLennan report noted modest growth in investment and capital due to increased market capacity and underwriting interest from carriers.

Late 2024 catastrophic events and any similar activities in the coming year will likely remain a primary driver for reinsurance costs, along with the increasing cost of capital, financial market volatility, and economic inflation. Commercial property insurers will seek out reinsurers for essential advantages, such as distributing risk over a larger footprint and stabilizing underwriting results, despite the cost of reinsurance.

Undervaluation poses challenges to adequate coverage and risk mitigation.

Commercial property's value can be dynamic and underestimated, yet replacement costs for many properties get revalued only every 3 to 5 years. A study of property appraisals by Kroll showed that an estimated 90 percent of buildings studied were underinsured, with 68 percent of the buildings valued from 2020 to 2021 underinsured by 25 percent or more. Also, rents are significantly down for commercial buildings, and more than $1 trillion in commercial real estate-based loans will mature in 2025. Investors will likely seek to recapitalize loans to reflect lower values in the coming year. Inaccuracies in valuation can throw off the modeling of expected losses for insurers and commercial policyholders. This vulnerability could ignite a shift in property insurance dynamics when the market sees an increase in claims not adequately covered by existing policies and introduce more volatility in the commercial property market.

1980-2024 United States Billion-Dollar Disaster Year-to-Date Event Cost (CPI-Adjusted)



*Cost statistics not included for Hurricane Milton (August 2024), Hurricane Helene (September 2024)
Source: National Centers for Environmental Information (NCEI), Triple-I

Data-driven insights may enhance the ability to predict and prevent loss.

Transformations in underwriting practices, pricing models, and policy structures can mitigate economic volatility. Yet, even if the coming year brings a more sustainable and viable market with greater predictability, carriers and policyholders will likely lean more heavily into data-driven decision-making to proactively manage risks and losses. Insurers will look to fine-tune catastrophe (CAT) risk models. As businesses demand more comprehensive coverage options to address the increasing complexity and frequency of commercial risks, insurers may need to harness innovation.

For example, Internet of Things (IoT) sensors can optimize risk management and loss mitigation capacity by collecting real-time property data. Using artifical intelligence (AI) to automate first notice of loss (FNOL) can reduce the time from incident occurrence to resolution, thereby cutting costs. Using predictive analytics and state-of-the-art valuation software to improve the reliability of data points in estimating replacement costs – can create more accurate insurance-to-value (ITV) calculations, thereby enhancing the adequacy of coverage and underwriting.

Carriers can meet policyholders where they are to spark innovation via tailored solutions.

Popularity may rise for alternative risk transfer mechanisms, such as captives or parametric insurance (a contract for payment when a covered event occurs and meets or exceeds a pre-defined intensity threshold) to keep abreast of risk mitigation. The E&S market, known for its capacity to support innovation in risk management, may continue to benefit from a rise in demand for creative and customized commercial coverage solutions that aren't accessible on the admitted market. Future outcomes will ultimately hinge upon relationships between insurers and policyholders.

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