

State of the P/C Industry:
Legal System Abuse and Geopolitical Risk Implications for Loss Reserving

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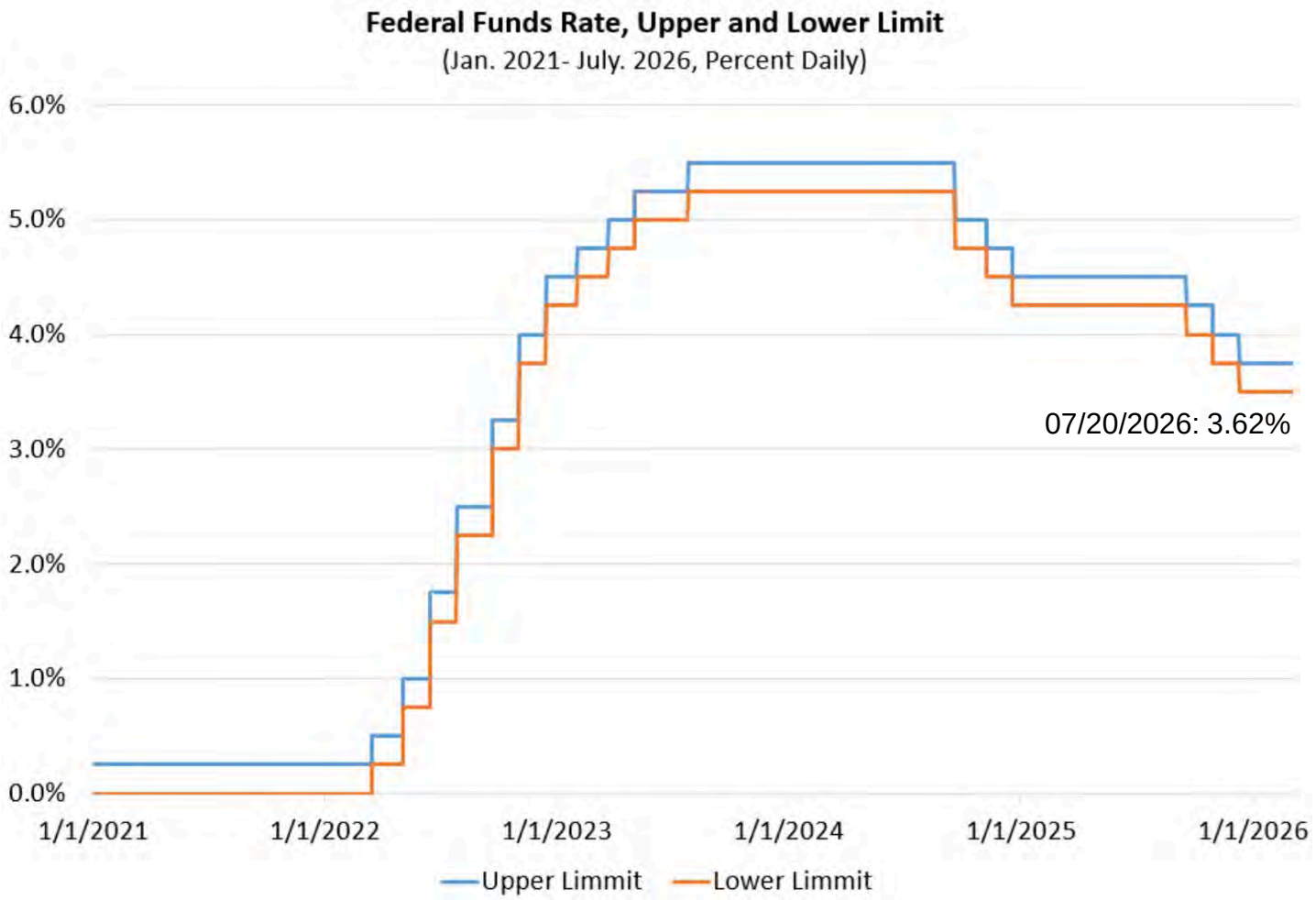
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Repair
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Wildfires
Tort
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Abuse
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Hurricanes
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Liability
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Capital, Liquidity, and Policyholders Surplus

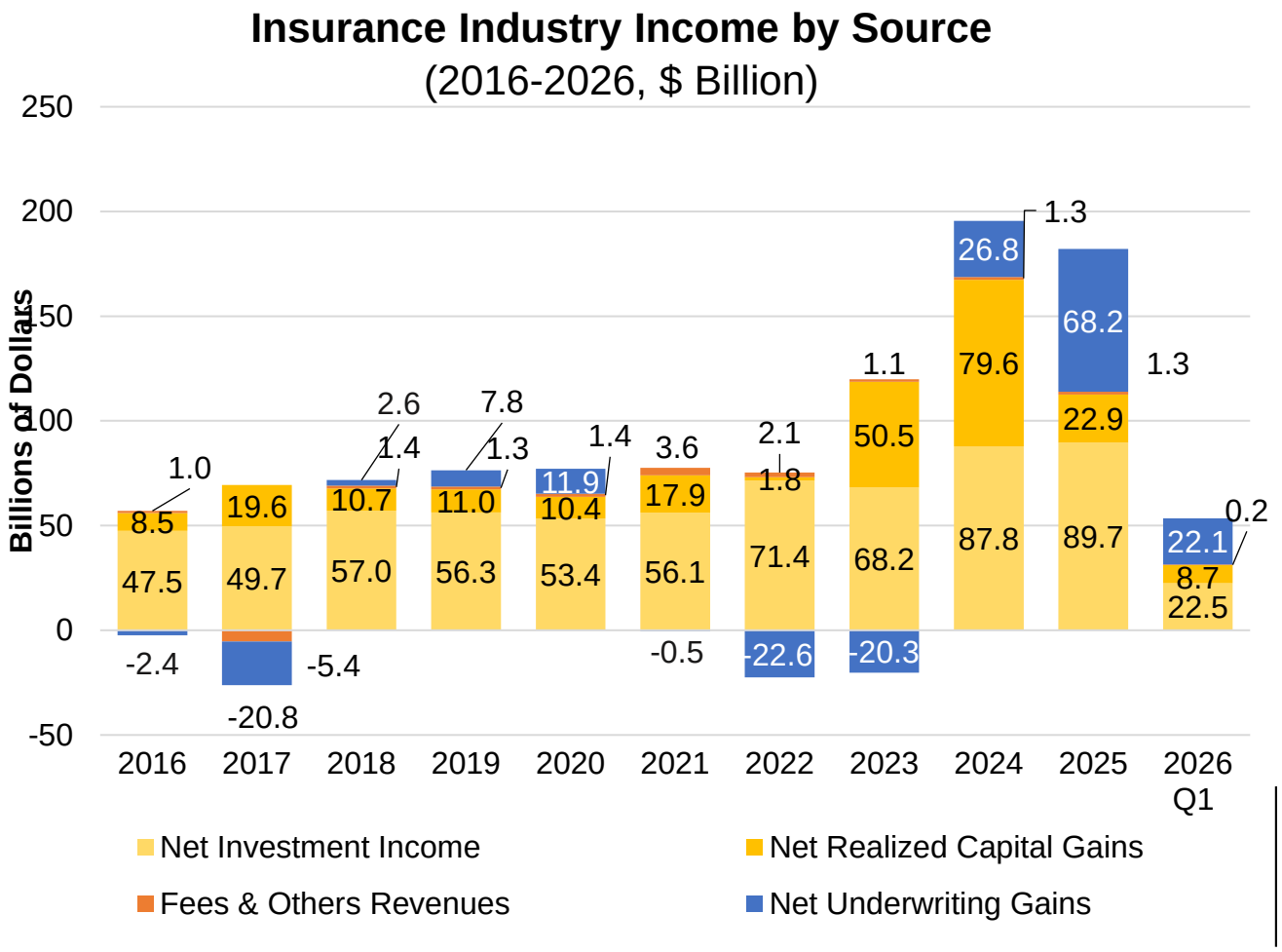
Monetary Policy Expectations

Don’t Fight the Fed: Continued easing key driver to sustain Triple-I P/C underlying growth forecasts.



Source: Board of Governors of the Federal Reserve System via FRED. (As of 07/24/2026).

Revenue and Income by Source



Despite recent years of higher insurance industry income, over the past decade, underwriting gains only represented 5.5% of total income.

As of Q1 2026, S&P has reported:

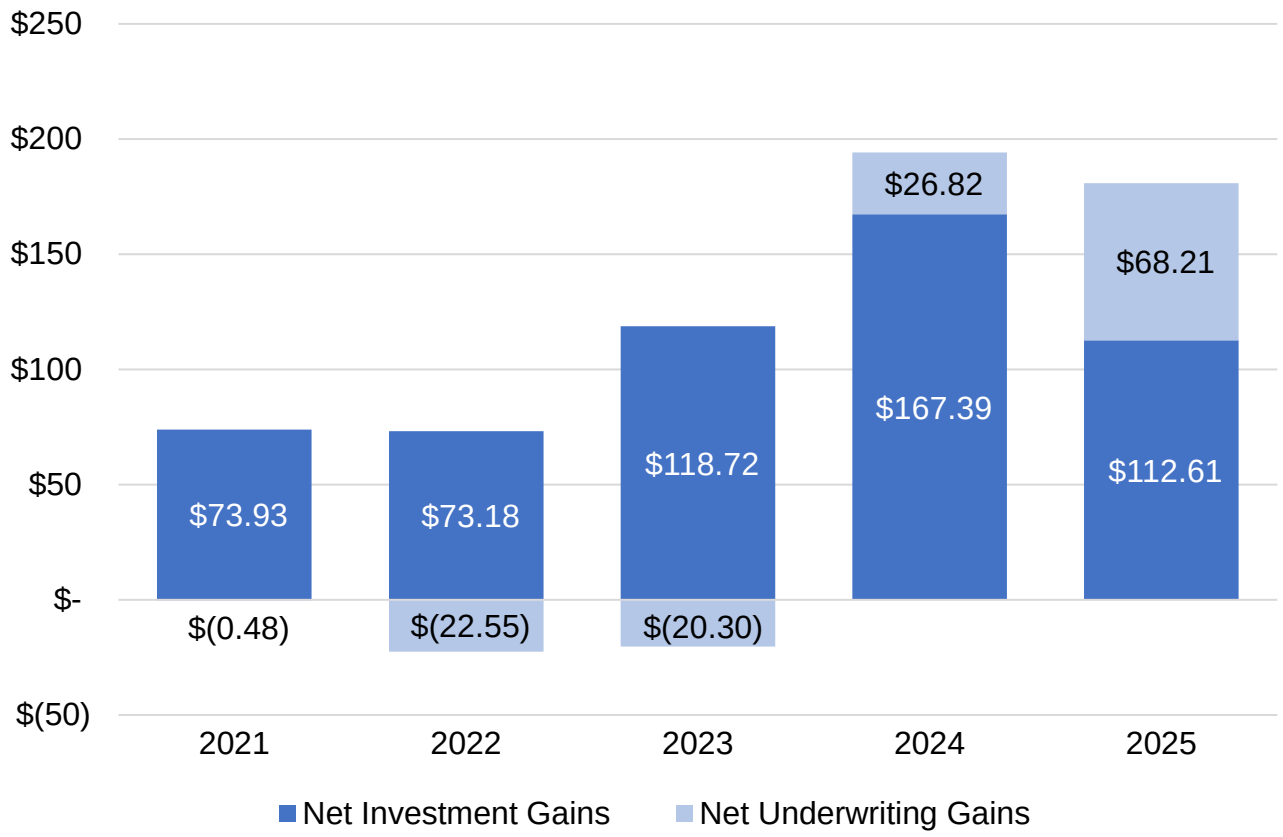
- $22.5B Net Investment income
- $23.29B Net realized capital gains
- $0.2B Fees and other revenues
- $22.21B in underwriting gains

Carriers generate about 80% of their income from investments; averaging $63.7B per year over the last ten years.

Sources: Analysis: Insurance Information Institute (as of 06/25/2026), Data: S&P; (Collected 06/22/2026).

Investment and Underwriting Gains

Insurance Industry Gains from Investments and Underwriting
(2021-2025, $ Billion)



Sources: Analysis: Insurance Information Institute (as of 06/25/2026), Data: S&P; (Collected 06/22/2026).

Insurance companies invest their money to pay future claims. These investments generate additional income to offset underwriting losses.

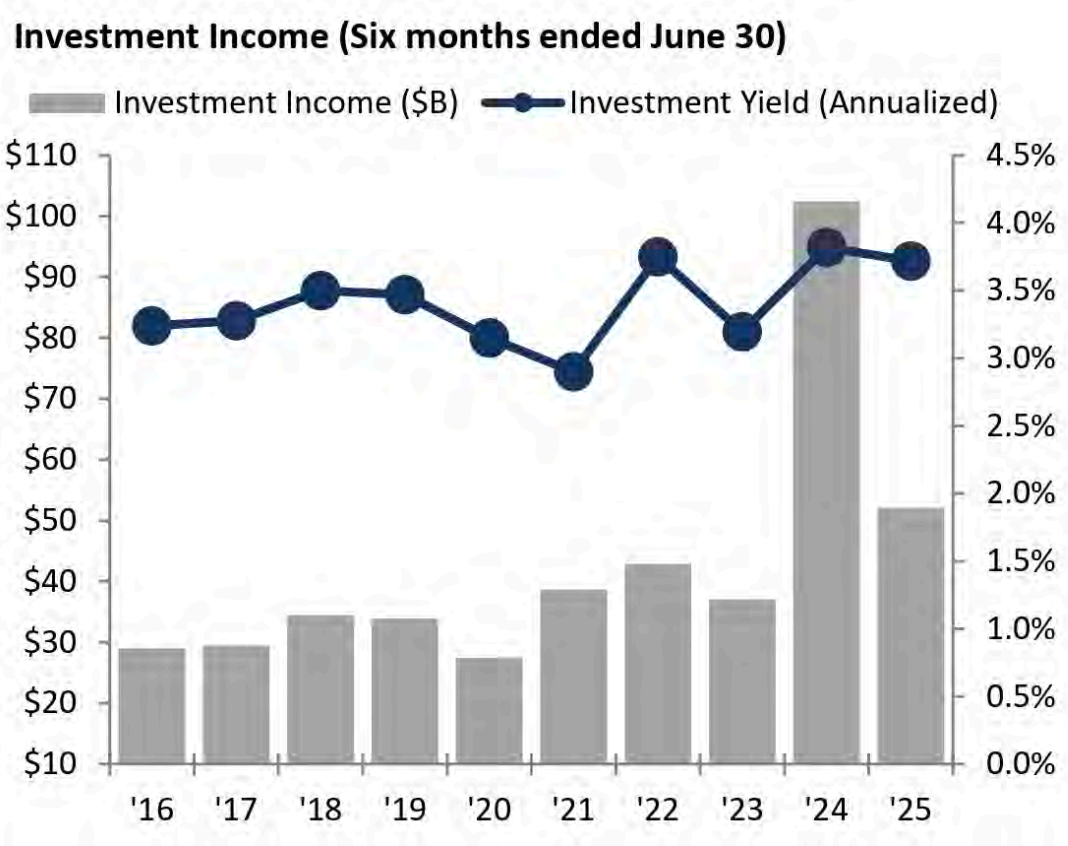
Key numbers:

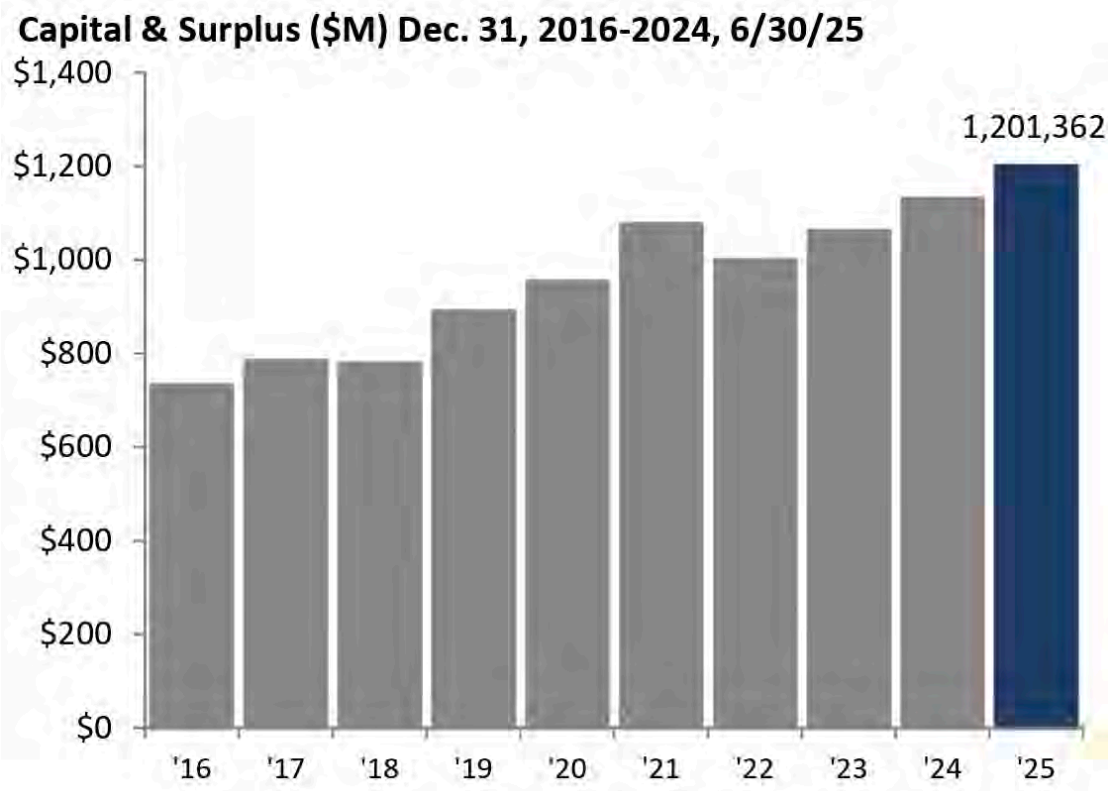
- In 2023, for every $1 lost in underwriting, nearly $6 was gained in investments
- From 2021 to 2025, underwriting gains averaged $10B
- From 2021 to 2025, investment generated an average of $110B per year

Insurance premiums rarely are the primary source of income for insurers, rather it's the investment capital that stays on hand long-term to pay claims.

P/C Industry Assets Portfolio Allocation

Portfolio managers seeking yields through equity exposure at 34.4%.
Investment income and performance unlikely to match 2024's in full 2025.

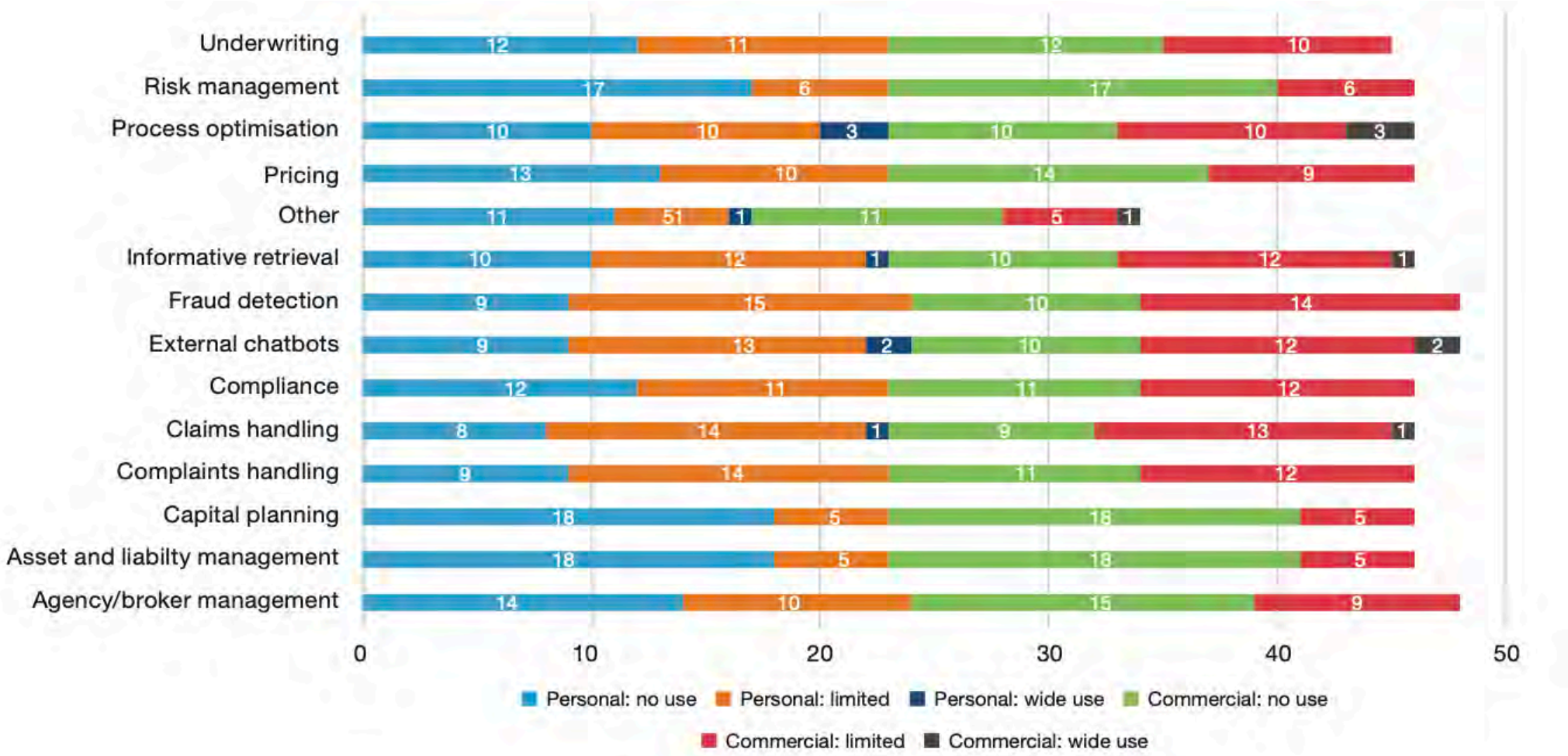




Source: NAIC U.S. Property & Casualty and Title Insurance Industries – 2025 First Half Results

Generative A.I. Use Cases

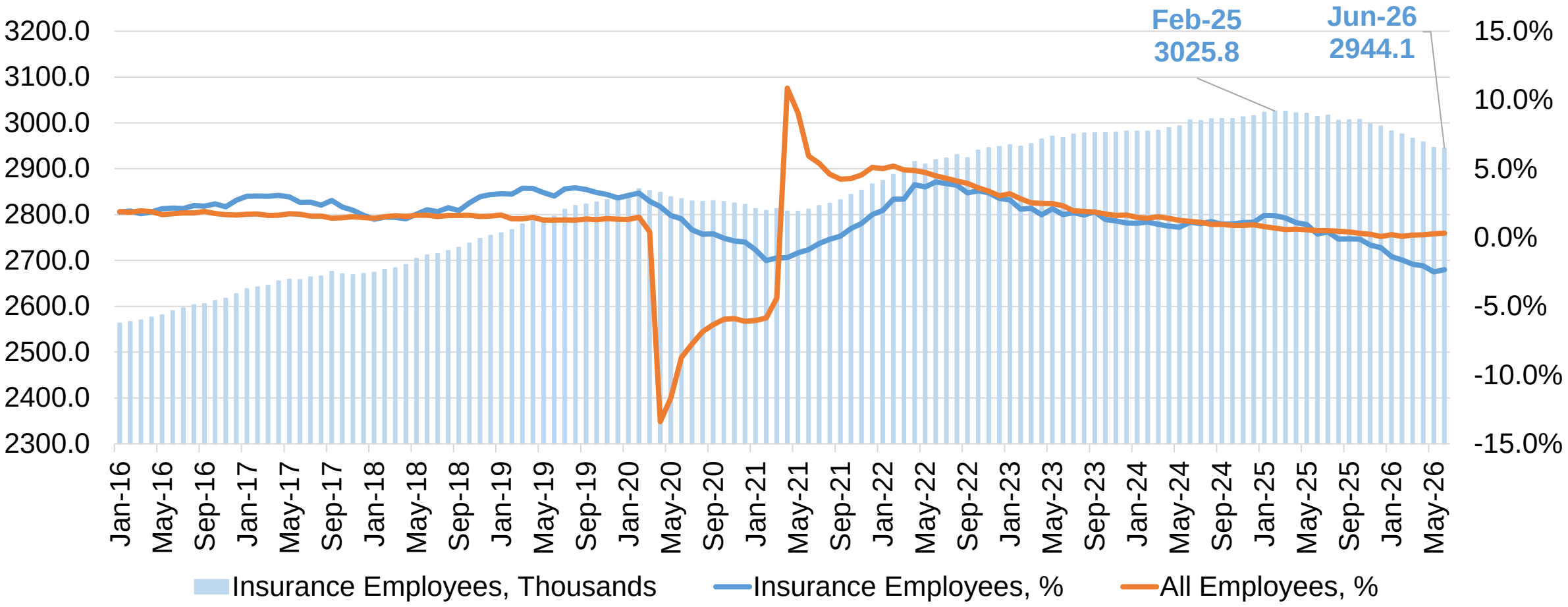
Triple-I: Early adopters report ROI on current A.I. investments will take years paying for themselves.
Successful A.I. implementation will require / enable employee growth - not cuts.



Graph: IAIS SWM 2025. (As of 04/2026).

Insurance and U.S. Employment

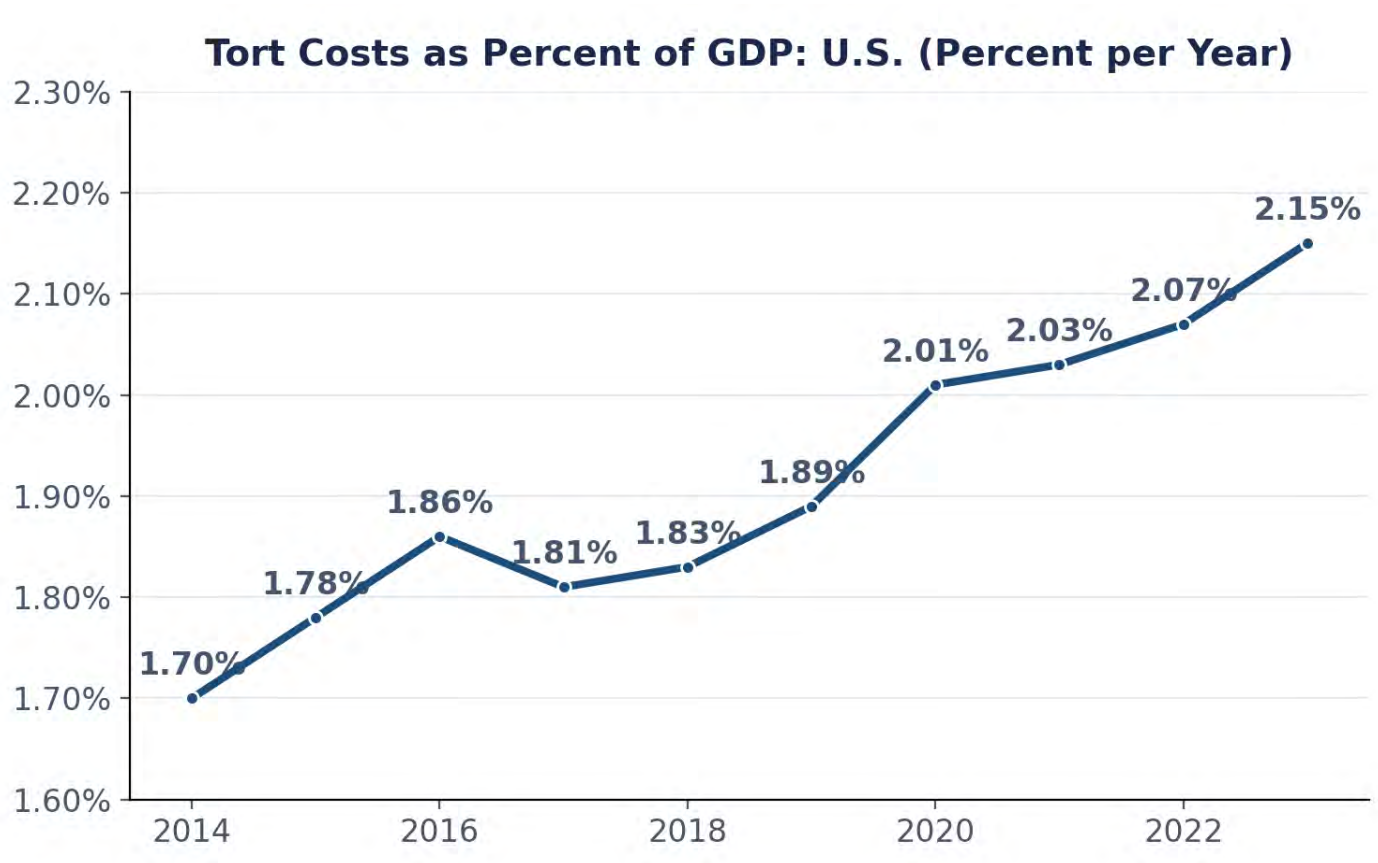
Insurance Employee Growth
(2016 - 2026, YoY% and Thousands of People)

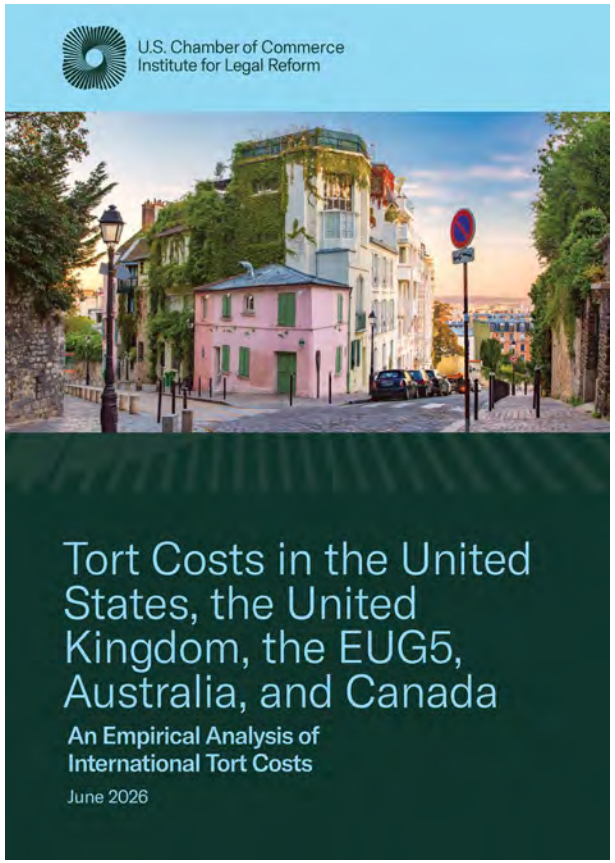


Sources: Analysis: Insurance Information Institute, Data: BLS; (As of 07/08/2026).

Legal System Abuse
and
Geopolitical Stress Tests

Legal System Abuse: Tort Costs as Share of U.S. GDP





From the report: “The “tort costs” referred to in this study include compensation paid to injured parties as well as the costs involved in administering and defending claims, and are estimated based on insurance data and estimated self-insured costs.”

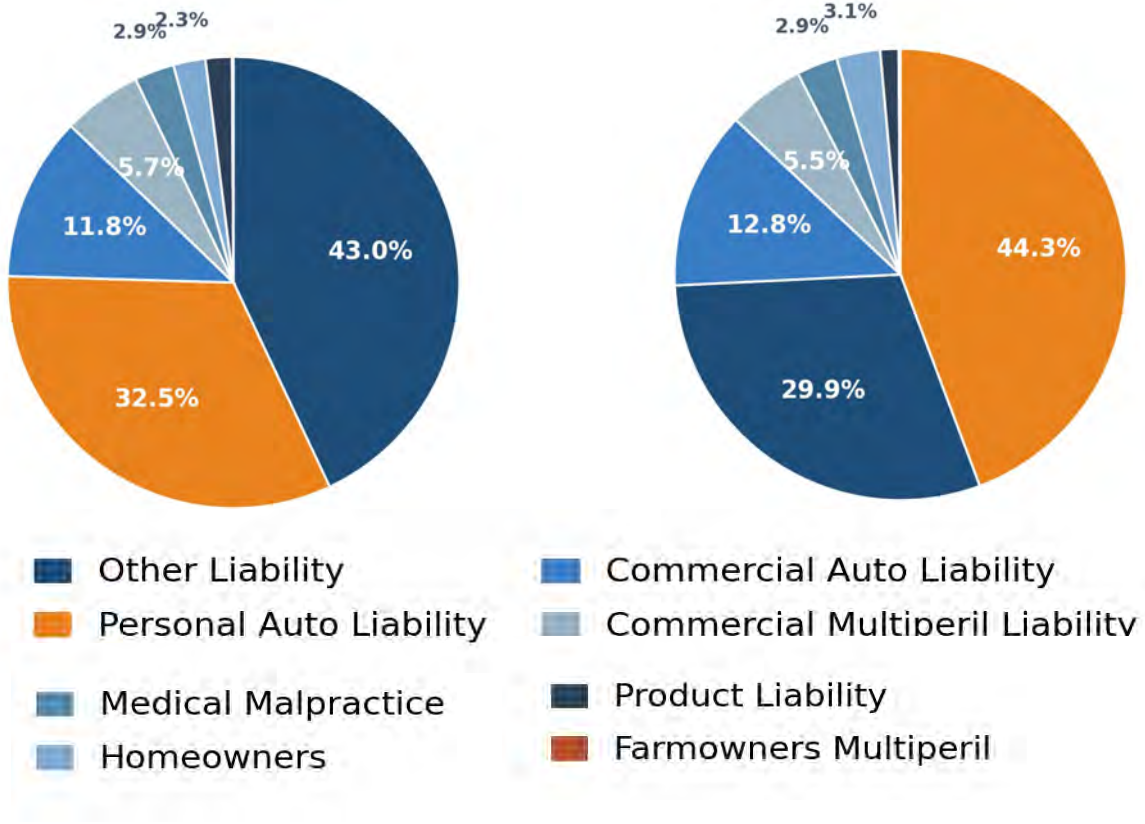
LSA: Where the U.S. Burden Sits, by Line

THE MIX, 2023

- Commercial lines carry $377.71B (65%), led by other liability.
- Personal lines add $202.01B (35%); personal auto is 93% of that.
- Insured costs are $416.48B (72%) of the total.

The findings indicate that the share of self-insured tort costs are increasing at a faster pace than total tort costs.

TOTAL TORT COSTS $579.73B

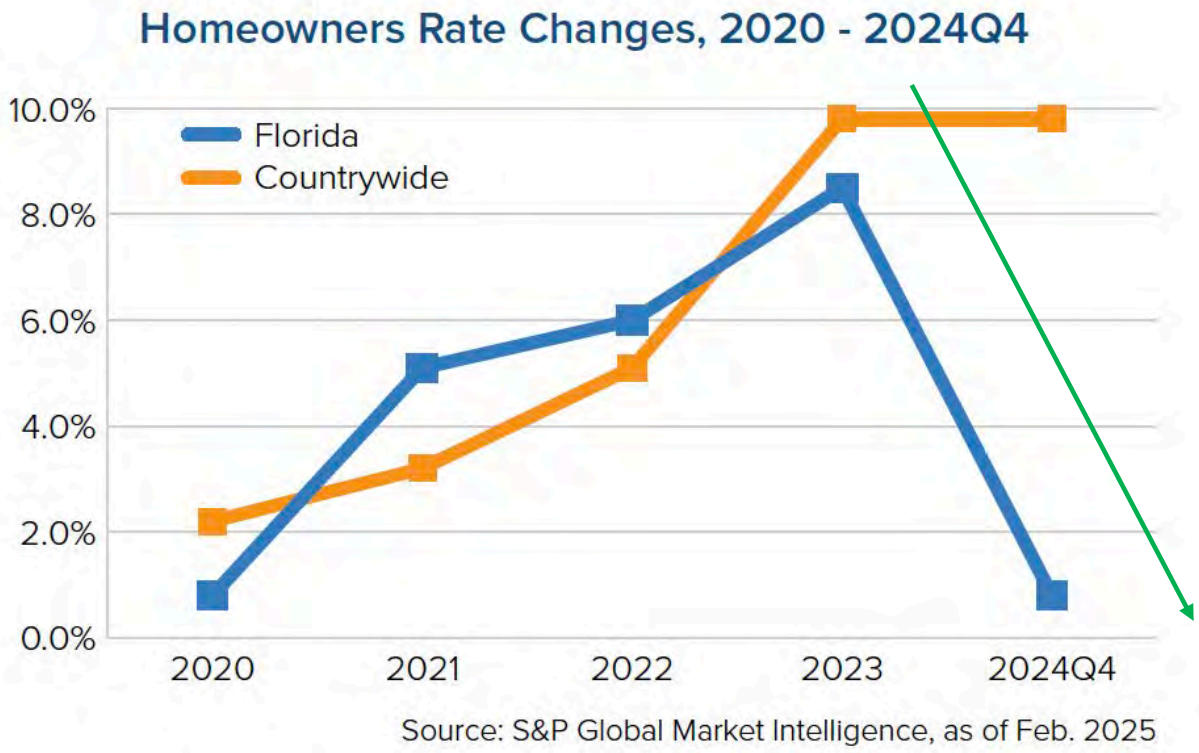


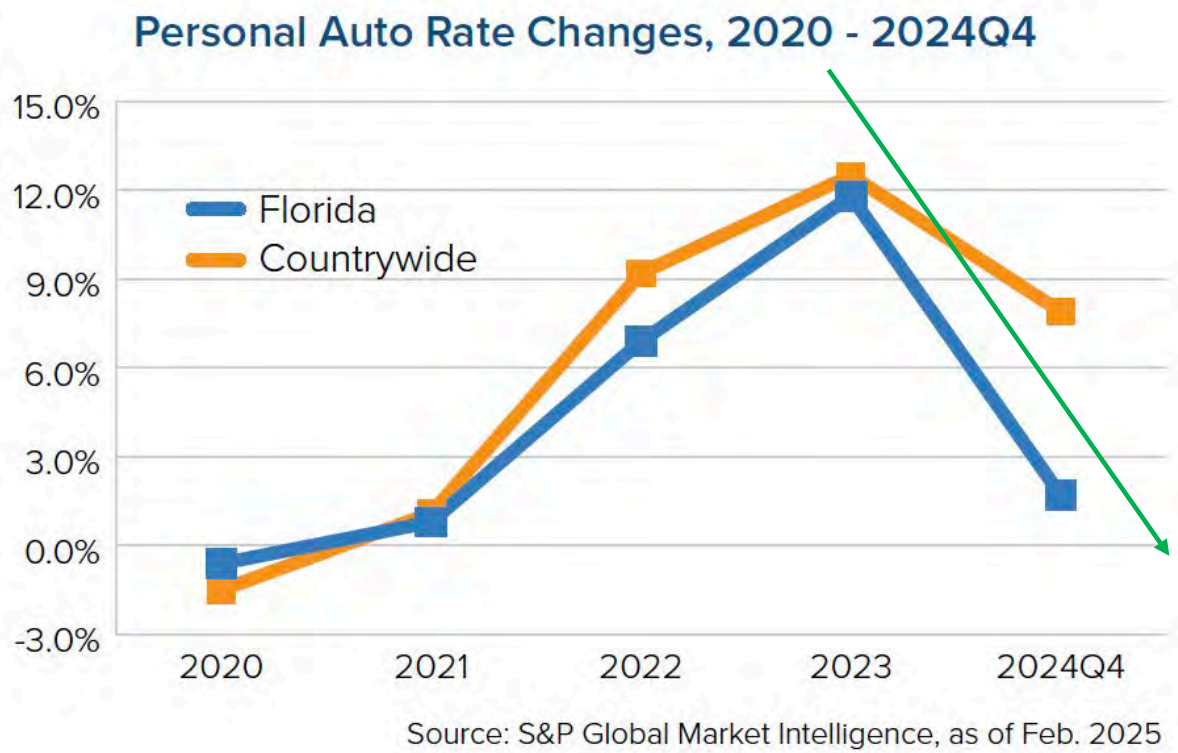
INSURED TORT COSTS $416.48B

Source: ILR and Triple-I (2026). Not included in final ILR Report.

Florida Tort Reform: Data-Driven Update

Florida tort reform delivers quantifiable benefits to policyholders – increasing affordability and availability.

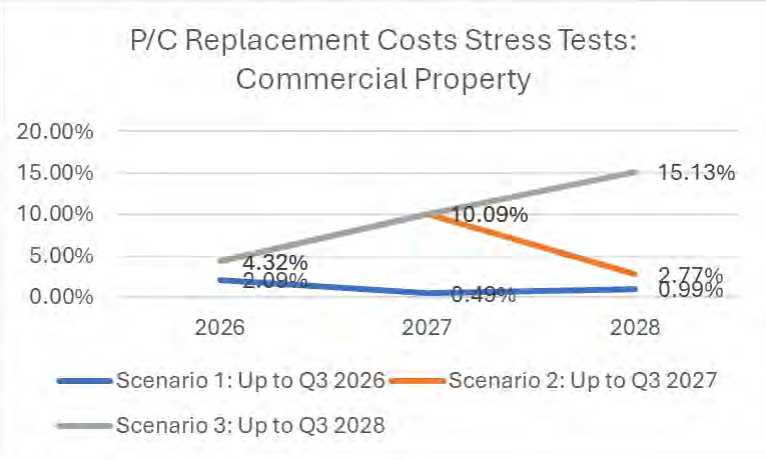


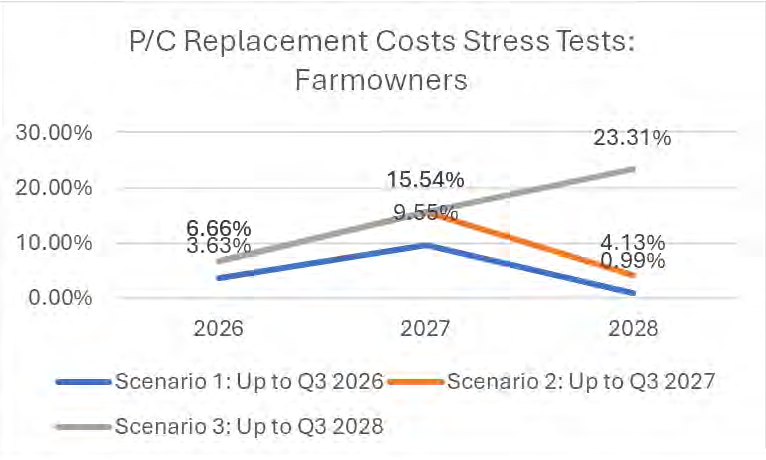


Among the top 10 national insurers writing homeowners insurance in Florida, 60% have expanded their business over the past year, and 40% of all insurers operating in the state filed for rate decreases in 2024.

Persian Gulf Conflict Impact on Replacement Costs

Continued conflict in the Persian Gulf could increase average replacement costs for commercial property, personal and commercial auto, and farmowners from their current 1.8% YoY to 6.6% in 2026, 15.54% in 2027, and 23.31% in 2028.





The stress tests' upper limit discounts the highest annual and monthly year-over-year CPI and PPI components during the COVID pandemic.

A discount of P/C replacement cost during COVID provides a credible and prudent benchmark for stress tests and reserving strategies.

P/C Insurance Lines Most Impacted by Gulf Conflict

ALREADY MATERIALIZING

1. **Personal & Commercial Auto**
   Synthetic rubber (tires) and plastics (components, panels, wiring) already driving repair and replacement costs upward.

2. **Commercial Property**
   Rising petrochemical and plastics costs already raising building contents, equipment, and inventory replacement valuations.

3. **Farm Owners / Agricultural**
   Fertilizers, pesticides, and herbicides feeding into higher farm input costs, crop inventory valuations, and equipment replacement.

CONTINGENT / EMERGING

4. **Business Interruption —** supply chain disruption and input cost volatility may extend claim durations and raise indemnity exposure.

5. **Inland Marine —** domestically held petrochemical-derived goods in warehouses may be worth well above stated values.

6. **Ocean Cargo —** goods stranded inside the Gulf or unable to transit the Strait may be active, growing claims exposure.

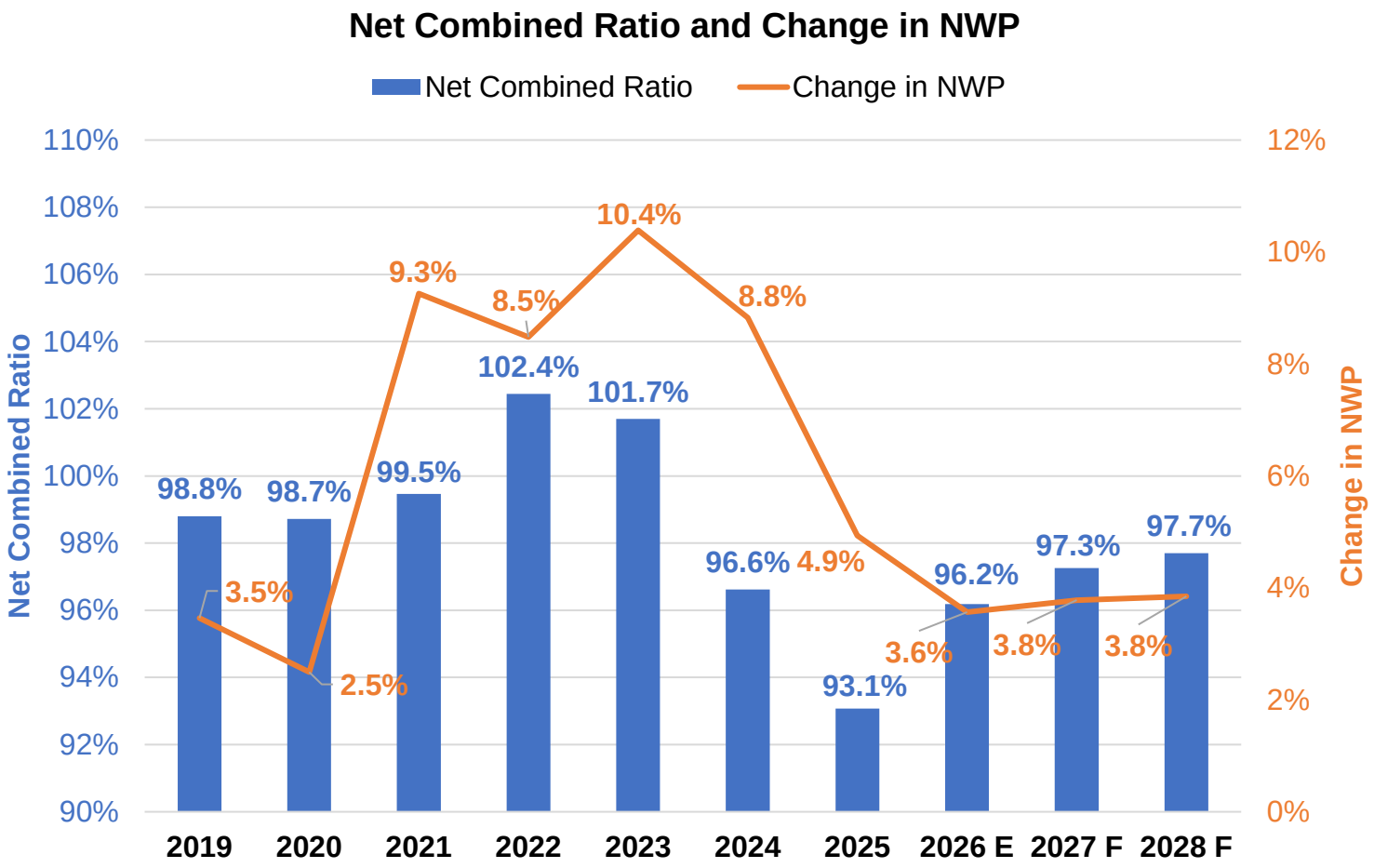
7. **Construction —** PVC, insulation, sealants, and adhesives may add to residential and commercial replacement costs.

Economic Drivers and Underwriting Projections

Key Drivers of Soft and Hard Markets



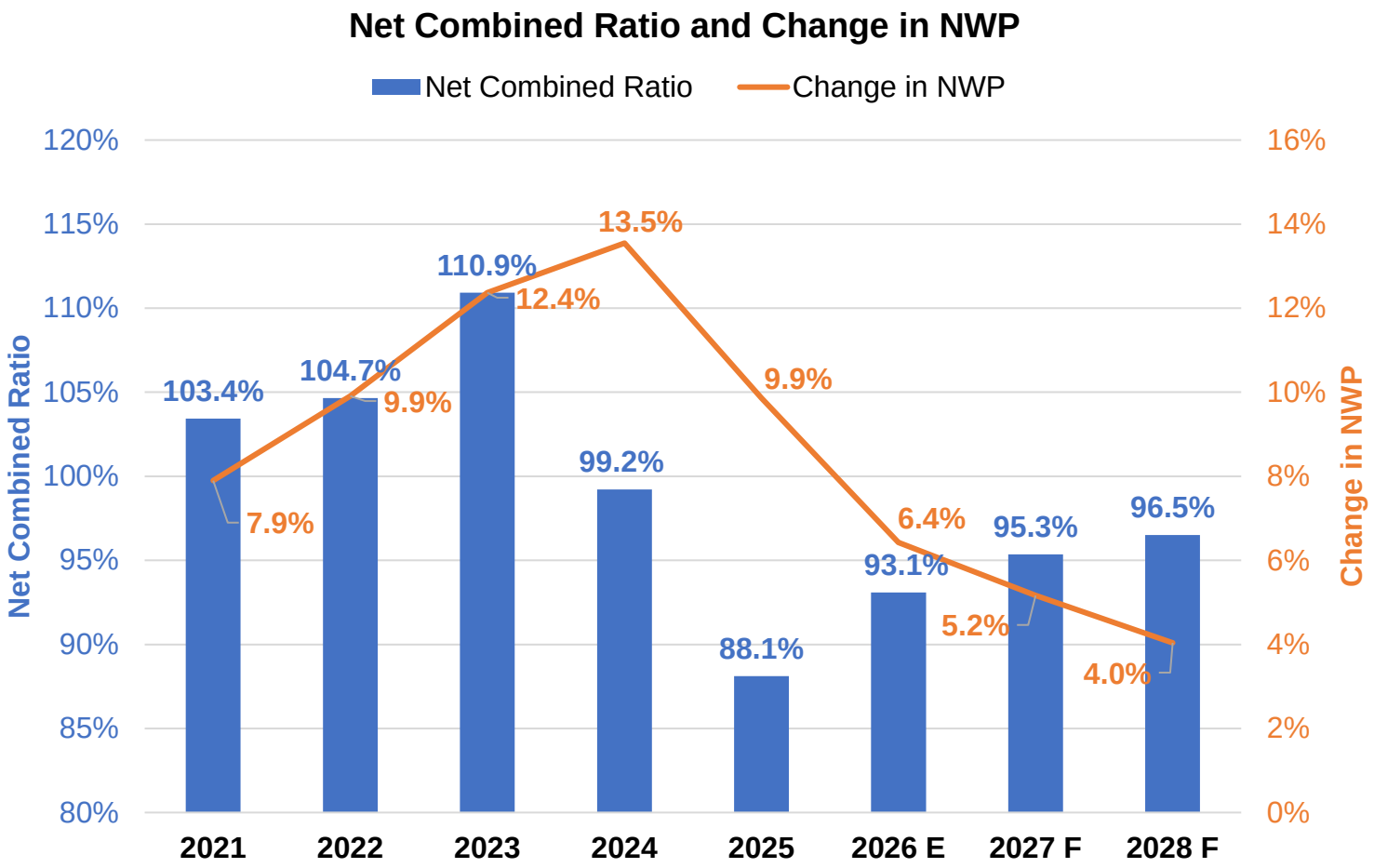
P&C Industry Outlook Underwriting Projections



- Good News #1:PC Industry forecasted to achieve its third consecutive year of underwriting profitability with a 2026 Net Combined Ratio (NCR) of 96.2.
- Good News: #2: Homeowners expected to achieve its 2nd lowest NCR in a decade although uncertainty from catastrophes remains.
- Bad News #1: General Liability and Commercial Auto poor performance expected to continue with NCR each above 100.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

Homeowners Underwriting Projections



- 2026 Net Combined Ratio forecast of 93.1 is 5.0 pts higher than 2025 but is the second lowest in a decade.
- 2026 Net Written Premium growth rate forecast of 6.4% is 3.5 pts lower than 2025, the lowest since 2020.
- 2026 Q1 Direct Incurred Loss Ratio of 44.5 is the best Q1 since 2013, 56.0 pts lower than the 100.5 for 2025 Q1.
- Profitability expected for foreseeable future although uncertainty from catastrophes remains.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

Homeowners & Renters Economic Driver Forecasts

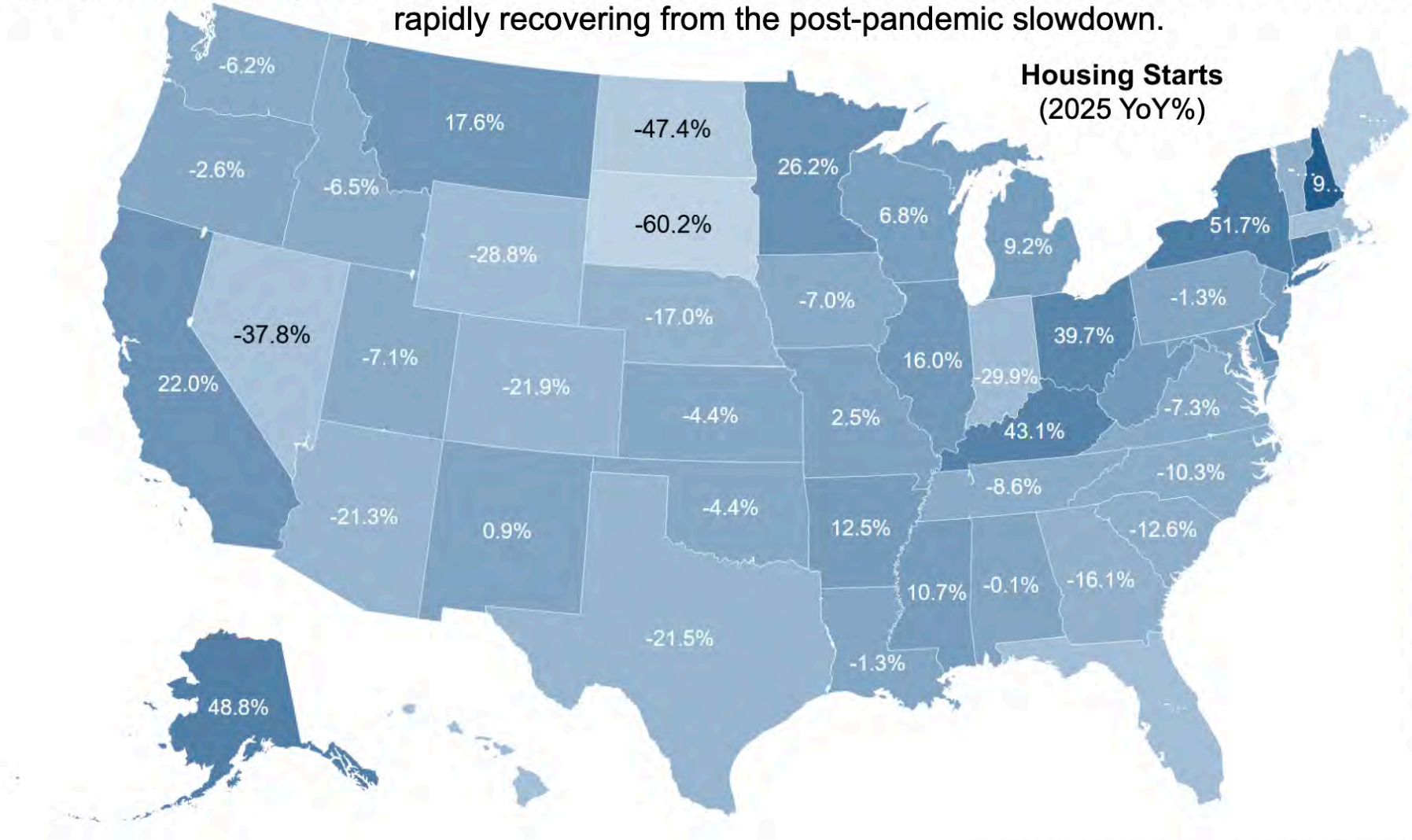
Underlying growth is currently expected to improve over the next three years.
Replacement costs are currently expected to improve over the next three years.

HOMEOWNERS & RENTERS ECONOMIC DRIVER FORECASTS (YOY%)				
	2025	2026	2027	2028
Underlying Growth	**-1.27%**	**2.06%**	**2.63%**	**3.25%**
Housing Unit Starts	-4.1%	0.5%	1.0%	1.5%
Residential Construction Employment	-0.7%	1.3%	1.5%	2.0%
Retail Sales	3.8%	6.0%	7.0%	8.0%
Replacement Costs	**3.09%**	**3.54%**	**2.46%**	**2.36%**
Construction Materials	2.9%	4.6%	2.4%	0.4%
Household Furnishings and Operations	2.8%	2.2%	0.3%	1.5%
Shelter	3.6%	3.8%	4.7%	5.3%

Sources: Insurance data and analysis: Triple-I; U.S. economic data: BLS, BEA via FRED; (As of 06/16/2026).

Residential Housing Starts

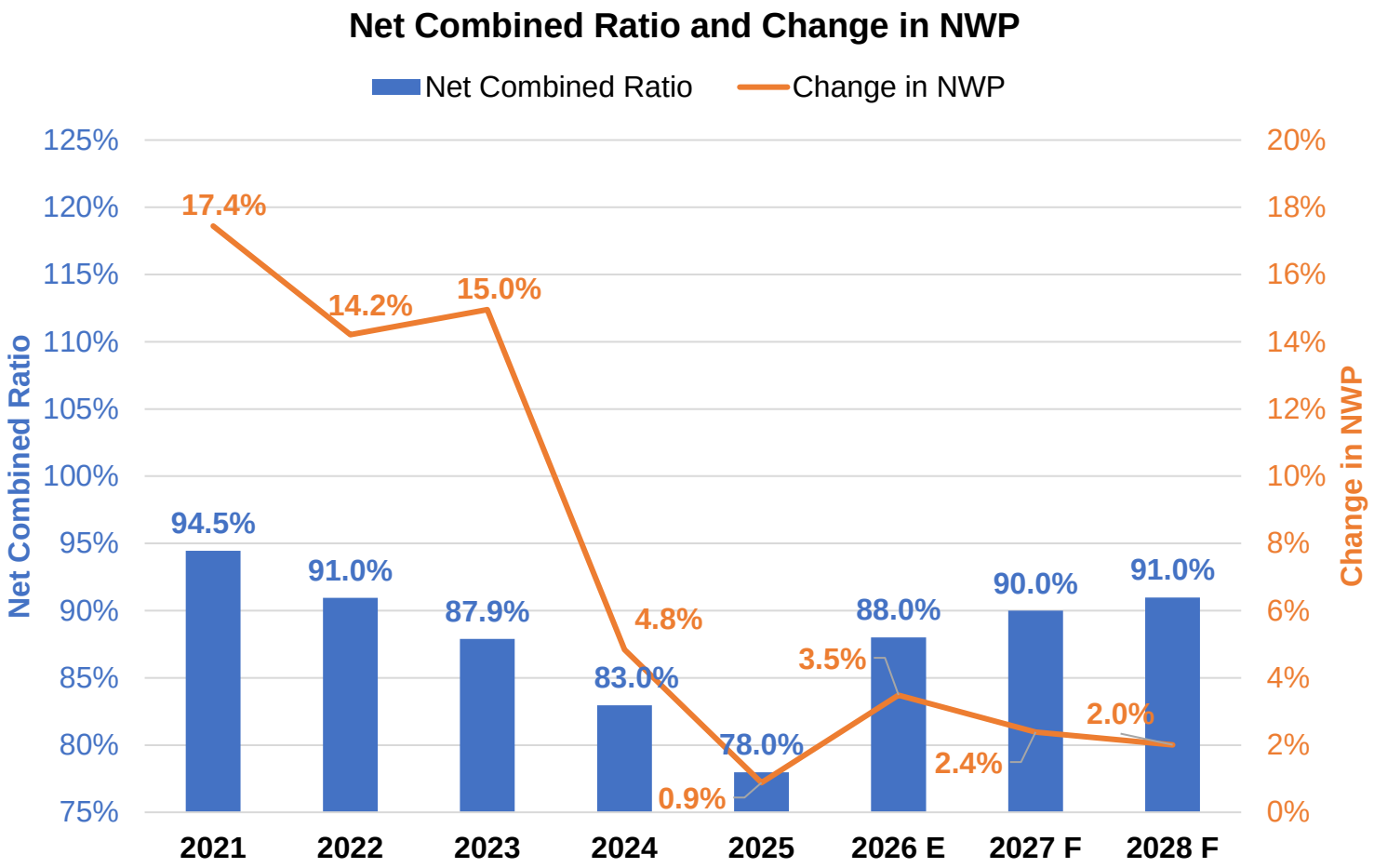
U.S. housing starts declined by 4.1% in 2025. The Sunbelt is showing double-digit decreases while New York and California a rapidly recovering from the post-pandemic slowdown.



Other States	
NH	96.7%
VT	-13.5%
MA	-33.2%
CT	53.8%
RI	-22.1%
NJ	13.1%
MD	7.1%
DE	42.0%
WV	15.1%
HI	-35.2%

Source: Analysis: Triple-I; Data: BEA. (As of 04/08/2026).

Commercial Property Underwriting Projections

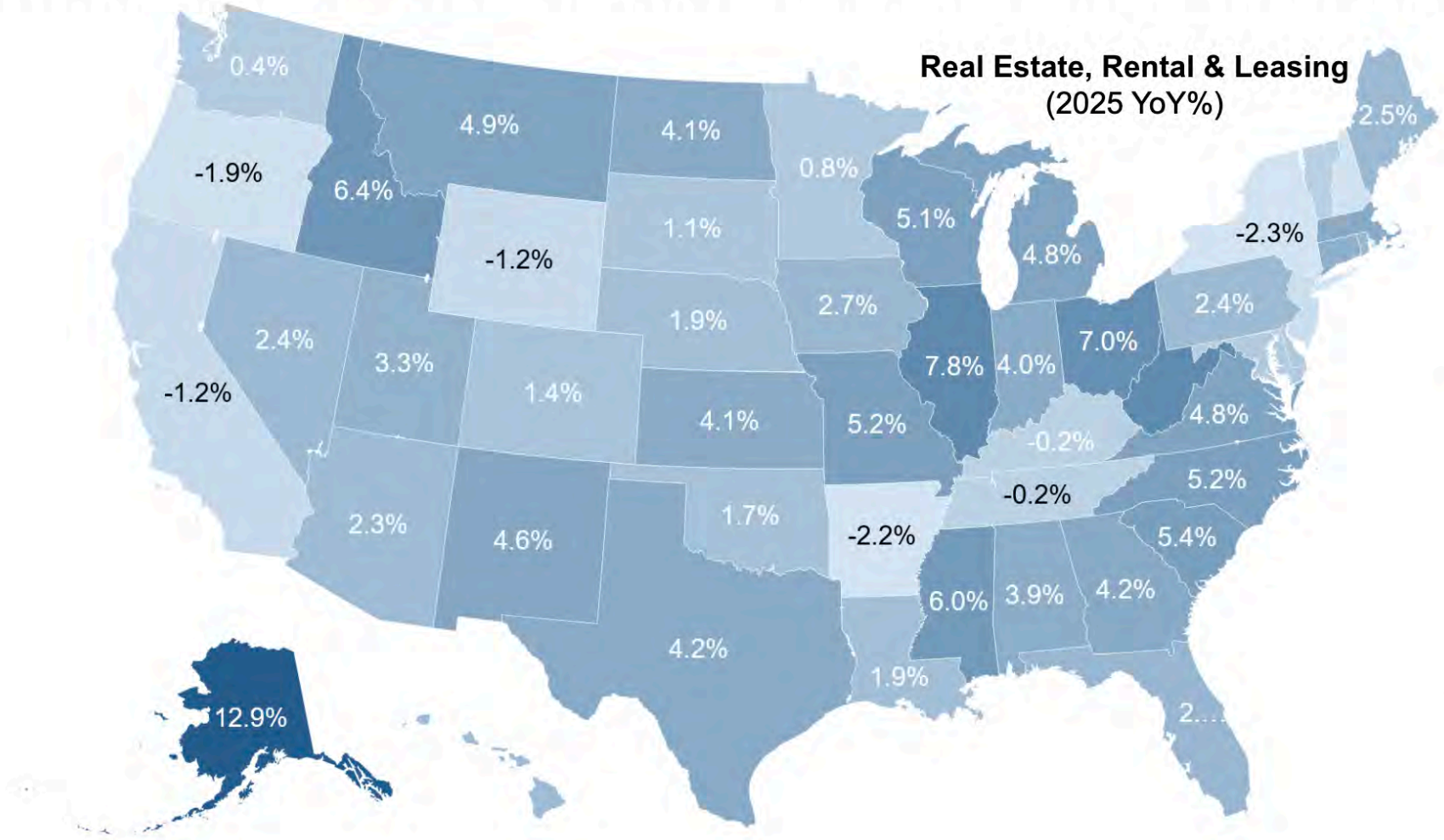


- 2026 Net Combined Ratio forecast of 88.0 is 10.0 pts higher than 2025, reflecting return to normal catastrophe expectations relative to 2025 actuals.
- 2026 Net Written Premium growth rate forecast of 3.5% is 2.6 pts higher than 2025, the second lowest since 2017.
- 2026 Q1 Direct Incurred Loss Ratio of 38.1 is the best Q1 since 2012.
- Favorable underwriting results expected in the forecast years.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

Commercial Construction

U.S. commercial construction grew by 2.9% YoY in 2025. The industry started to shed Class A downtown underperforming assets in Q1 2026 and may finally be positioning itself for the start of a new expansion cycle.



Other States	
NH	-2.0%
VT	-0.1%
MA	4.2%
CT	3.6%
RI	2.6%
NJ	-1.6%
MD	0.6%
DE	0.5%
WV	7.6%
HI	2.2%

Source: Triple-I: Analysis; Data: BEA. (As of 04/08/2026).

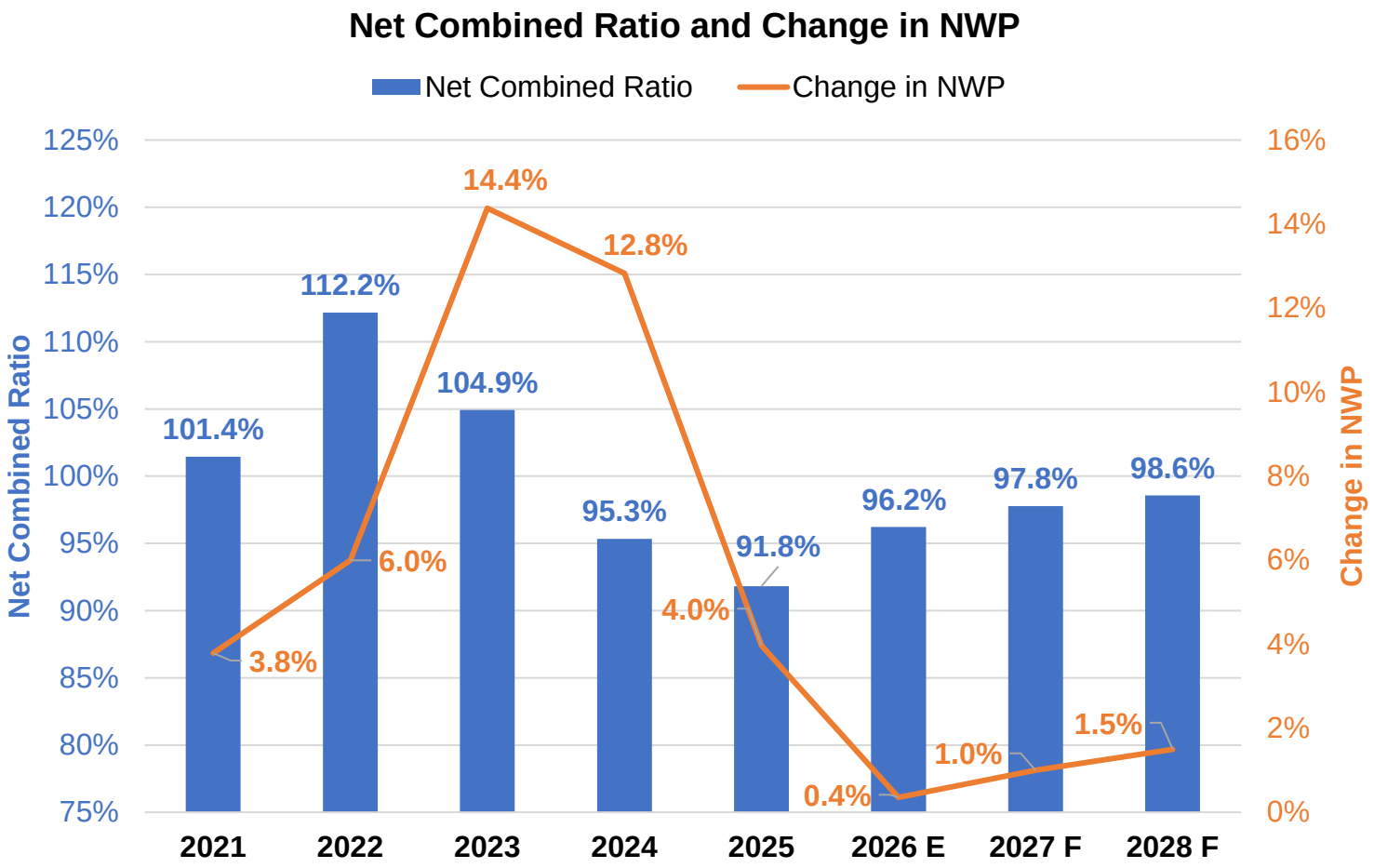
Commercial Property Economic Driver Forecasts

Underlying growth is currently expected to improve over over the next years.
The pace of increase in replacement costs is expected to slow down in 2027 and 2028 after its increase in 2026.

COMMERCIAL PROPERTY ECONOMIC DRIVER FORECASTS (YOY%)				
	2025	2026	2027	2028
Underlying Growth	**3.29%**	**5.17%**	**6.50%**	**5.83%**
Real Estate, Rental & Leasing	2.93%	2.00%	2.50%	3.50%
All Employees Non-Residential Buildings	1.27%	4.00%	6.00%	5.00%
Private Non-Residential Fixed Investment	5.67%	9.50%	11.00%	9.00%
Replacement Costs	**1.07%**	**2.09%**	**0.49%**	**0.99%**
Construction Materials	2.86%	4.58%	2.41%	0.36%
Total Private Capital Investment Costs	3.12%	5.00%	5.46%	5.81%
Information Technology Prices	-2.77%	-3.29%	-6.41%	-3.21%

Sources: Insurance data and analysis: Triple-I; U.S. economic data: BLS, BEA via FRED; (As of 06/16/2026).

Personal Auto Underwriting Projections



- 2026 Net Combined Ratio forecast of 96.2 is 4.4 higher than 2025.
- 2026 Net Written Premium growth rate forecast of 0.4% is 3.6 pts lower than 2025, the second lowest only to 2020 in 15+ years.
- Underwriting profitability expected to continue for the foreseeable future.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

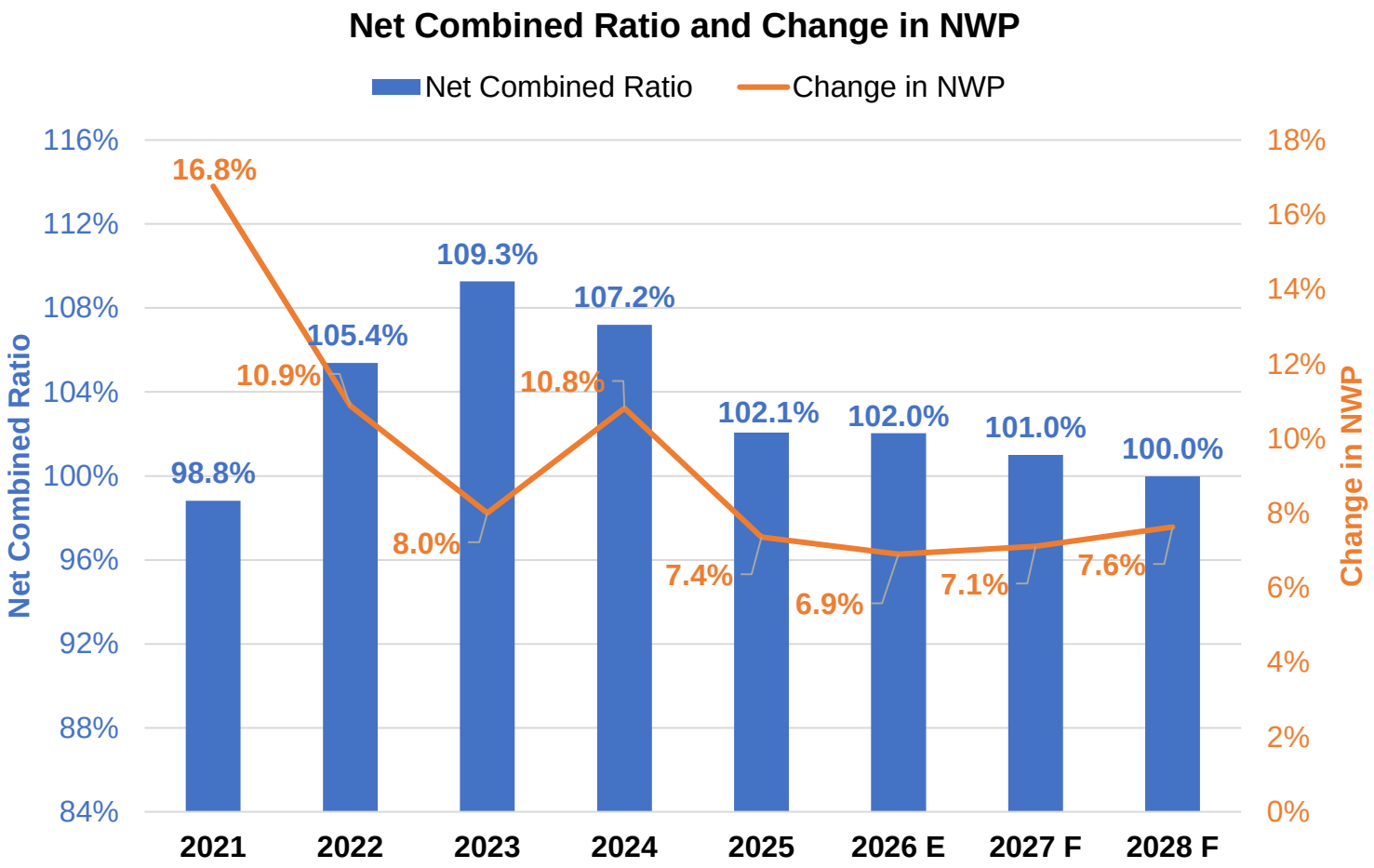
Personal Auto Economic Driver Forecasts

Underlying growth is currently expected to improve over the next three years.
Replacement costs are currently expected to decrease over the next three years.

PERSONAL AUTO ECONOMIC DRIVER FORECASTS (YOY%)				
	2025	2026	2027	2028
Underlying Growth	**2.76%**	**2.75%**	**4.00%**	**3.00%**
Auto and Light Truck Sales	2.4%	4.5%	5.0%	3.0%
Motor Vehicle Personal Expenditures	3.5%	-0.8%	2.0%	3.0%
Replacement Costs	**1.76%**	**-0.42%**	**-1.96%**	**-0.63%**
New Vehicles	0.3%	0.0%	-0.3%	0.8%
Used Cars and Trucks	2.8%	-4.6%	-8.9%	-4.8%
Motor Vehicle Parts & Equipment	2.14%	3.3%	3.3%	2.1%

Sources: Insurance data and analysis: Triple-I; U.S. economic data: BLS, BEA via FRED; (As of 06/16/2026).

Commercial Auto Underwriting Projections



- 2026 Net Combined Ratio forecast of 102.0 is on par with 2025.
- 2026 Net Written Premium growth rate forecast of 6.9% is 0.5 pts lower than 2025.
- 2026 - 2027 are forecasted to remain unprofitable with a 100 Net Combined Ratio by 2028 despite continuation of Net Written Premium growth estimates of 6.9 to 7.1 pts.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

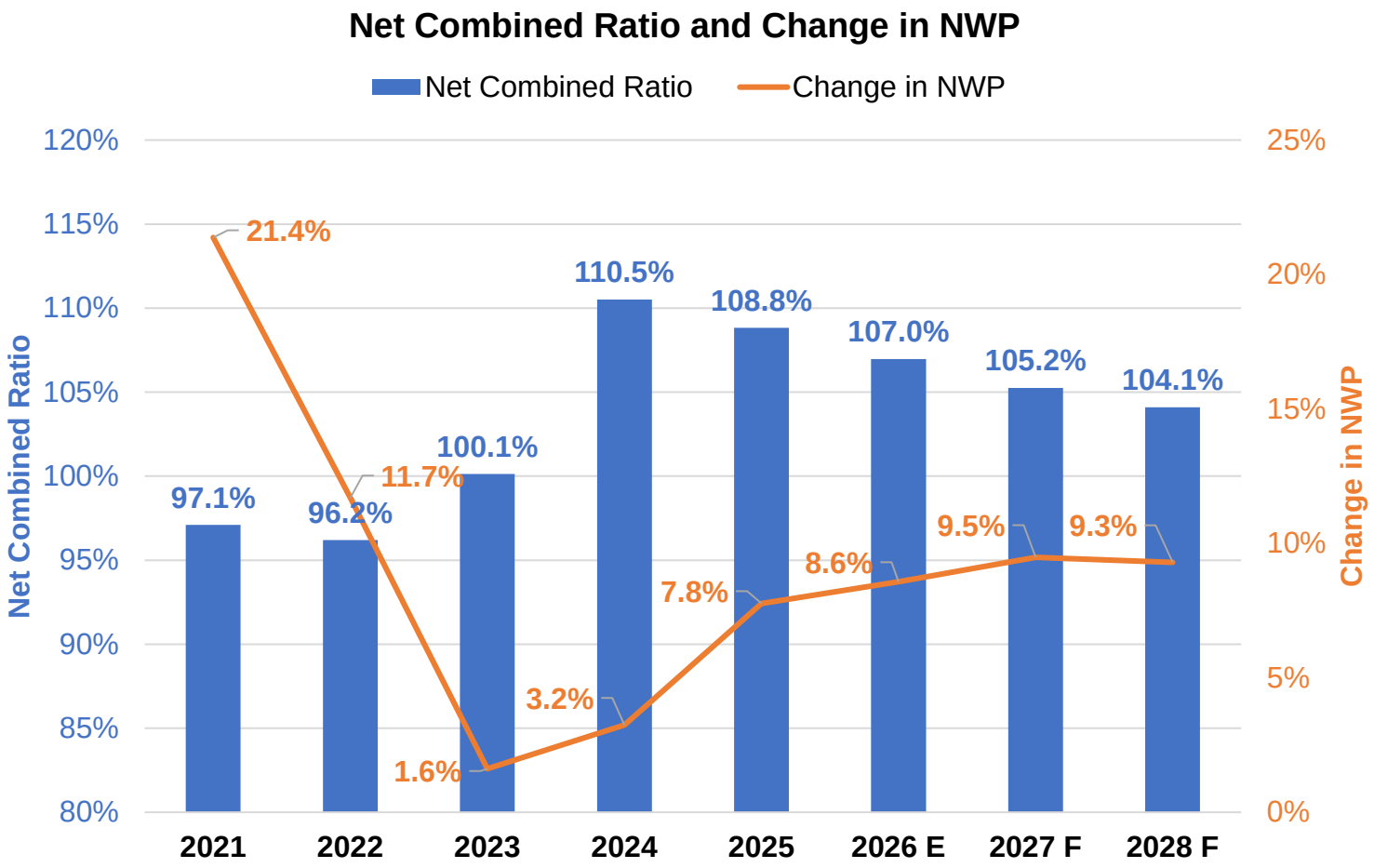
Commercial Auto Economic Driver Forecasts

Underlying growth is currently expected to improve in 2027 and 2028 after its decrease in 2026.
Replacement costs are expected to improve over the next three years.

COMMERCIAL AUTO ECONOMIC DRIVER FORECASTS (YOY%)				
	2025	2026	2027	2028
Underlying Growth	**-3.80%**	**-1.17%**	**2.33%**	**11.67%**
Heavy Weight Trucks Sales	-13.3%	-7.5%	-5.0%	10.0%
Light Trucks Sales	4.9%	3.0%	7.0%	15.0%
Motor Vehicle Output Private Fixed Investment	-3.0%	1.0%	5.0%	10.0%
Replacement Costs	**1.76%**	**-0.42%**	**-1.96%**	**-0.63%**
New Vehicles	0.3%	0.0%	-0.3%	0.8%
Used Cars and Trucks	2.8%	-4.6%	-8.9%	-4.8%
Motor Vehicle Parts & Equipment	2.14%	3.3%	3.3%	2.1%

Sources: Insurance data and analysis: Triple-I; U.S. economic data: BLS, BEA via FRED; (As of 06/16/2026).

General Liability Underwriting Projections



- 2026 Net Combined Ratio forecast of 107.0 is 1.8 pts improved over 2025.
- 2026 Q1 Direct Incurred Loss Ratio of 64.6% is the highest in 15+ years.
- 2026 Net Written Premium growth rate of 8.6% is 0.8 pts higher than 2025.
- NCR is expected to improve in 2026 - 2028 but remain unprofitable despite increased Net Written Premium growth rate forecasts larger than the most recent three years.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

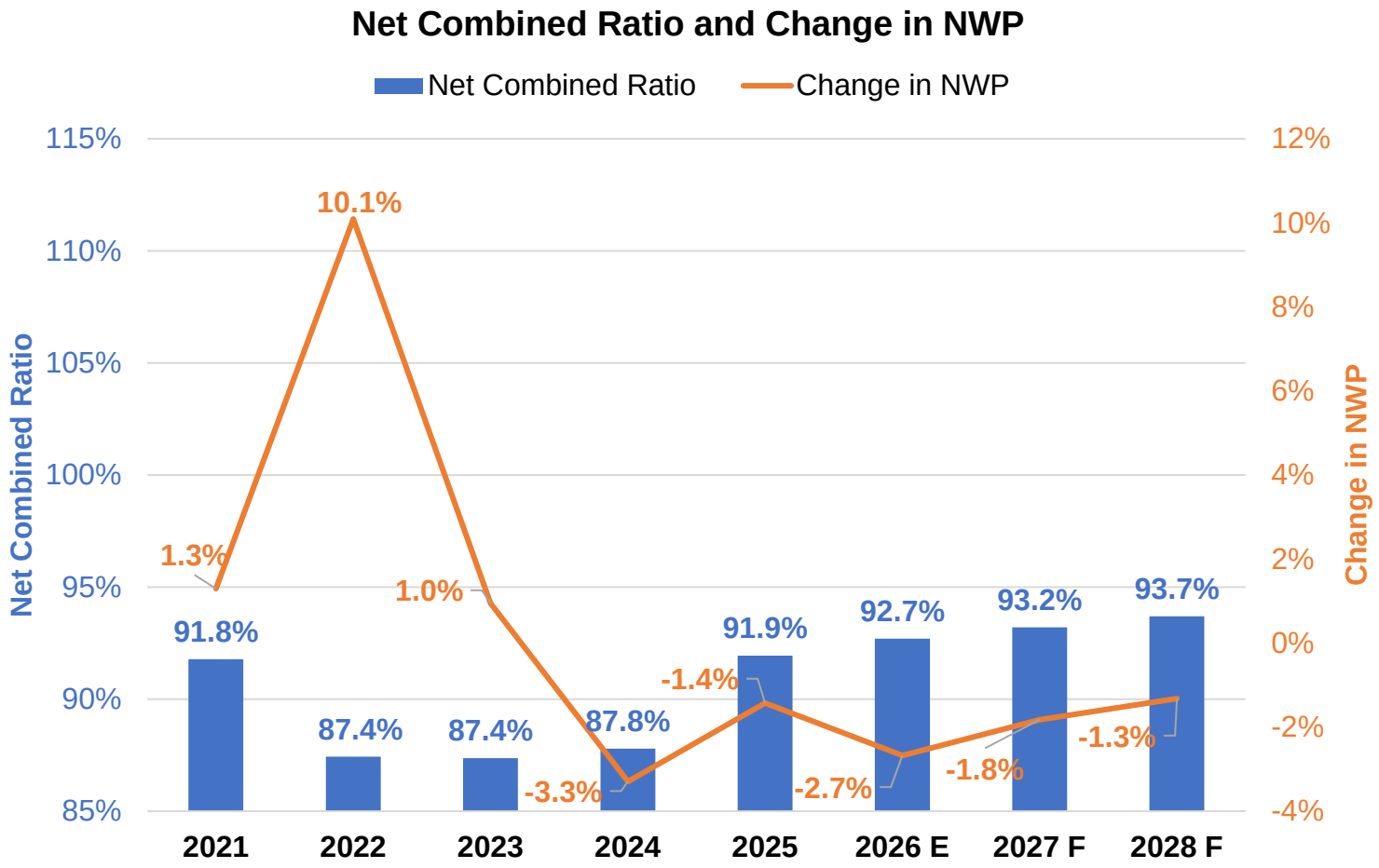
General Liability Economic Driver Forecasts

Frequency drivers are currently expected to remain elevated over the next three years.
Cost drivers are currently expected to remain stable over the next three years.

GENERAL LIABILITY ECONOMIC DRIVER FORECASTS (YOY%)				
	2025	2026	2027	2028
Frequency Drivers	**3.44%**	**5.25%**	**5.50%**	**5.95%**
Retail Sales	3.8%	6.0%	7.0%	8.0%
Finance & Insurance Sector	3.1%	4.5%	4.0%	3.9%
Costs Drivers	**1.89%**	**2.10%**	**2.10%**	**2.25%**
Medical Care Commodities	0.9%	-2.5%	-2.5%	1.2%
All CPI Items Less Food & Energy	2.8%	2.7%	2.2%	2.0%

Sources: Insurance data and analysis: Triple-I; U.S. economic data: BLS, BEA via FRED; (As of 06/16/2026).

Workers Compensation Underwriting Projections



- 2026 Net Combined Ratio forecast of 92.7 is 0.8 pts higher than 2025 but is the 12th consecutive year of underwriting profitability.
- 2026 Net Written Premium growth rate forecast of -2.7% is 1.3 pts lower than 2025. NWP growth rate for 2027-2028 expected to increase slightly from -1.8% to -1.3%.
- Favorable underwriting results expected for forecast horizon.

Source: Triple-I, Milliman, and NAIC Statutory Financial Data through S&P Global Market Intelligence (as of 6/2026)

Workers Comp Economic Driver Forecasts

Frequency drivers are expected to increase at a moderate pace over the next three years.
Cost drivers are expected to remain stable over the next three years.

GENERAL LIABILITY ECONOMIC DRIVER FORECASTS (YOY%)				
	2025	2026	2027	2028
Frequency Drivers				
Total Non-Farm Payroll	0.5%	0.5%	0.75%	1.0%
Costs Drivers				
Average Hourly Earnings	4.0%	3.0%	3.3%	3.0%

Sources: Insurance data and analysis: Triple-I; U.S. economic data: BLS, BEA via FRED; (As of 06/16/2026).

Key Risks and Opportunities

State of the Insurance Market: Outlook 2026-2028

- Capital, Liquidity, and Policyholders Surplus
- Loss Reserving and Geopolitical Stress Tests
- Economic Drivers and Underwriting Performance
- Key Risks and Opportunities

Prepared for IREF, July 20-25, 2026
Griffith Foundation Session, July 24, 8:30-9:30am
Madison, WI.

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Dr. Léonard, PhD, CBE, is Chief Economist and Data Scientist at the Insurance Information Institute. In addition, Dr. Léonard is adjunct faculty in the Department of Economics at New York University. He is Board member of the Insurance Research Council.

Dr. Léonard brings more than twenty years of insurance experience providing economic, forward-looking data analytics, and cat modeling to quantify the risk exposures of Property Casualty and specialty lines. He held senior and leadership positions in the industry such as Chief Economist and Data Scientist at Alliant; Chief Economist at Jardine Lloyd Thompson; and Chief Economist for Trade Credit and Political Risk at Aon. Immediately prior to the Triple-I, he was the Founder and CEO of MaKro LLC.

Dr. Léonard's previous academic appointments include Adjunct Faculty at New York University's Center for Data Science; Adjunct Faculty at Columbia University's Data Science Institute and Statistics Department; and Fellow in the Institute of Latin American Studies at Columbia University.

Dr. Léonard's holds a B.A. from McGill University, an MTS from Harvard University, and a M.A. and Ph.D. in Political Economy from the University of Virginia.



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Marina Madsen is Economic Research Analyst for the Economics and Analytics department at the Insurance Information Institute.

Trained in economics at the University of South Carolina Darla Moore School of Business, Marina was a research assistant for economic research projects in South Carolina and tutored economics students as part of the Rising Scholar's initiative for fostering inclusive excellence among diverse and underserved students. Marina also interned at the Richland County Economic Development office working on census and other government data analysis for grant proposals.

Marina holds a Global Certificate in Corporate Sustainability from Vanderbilt University and The University of British Columbia.

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