

AM BEST

AM Best's Insurance Market Briefing - Grand Cayman

February 12, 2026

Agenda

Welcoming Remarks – Jeff Mango

Property & Casualty 2026 Outlook and a Look at Stress Testing – Kourtnie Beckwith

Life & Annuity 2026 Outlook and a Focus on Structural Shifts – David Marek

Delegated Underwriting Authority Enterprise 2026 Outlook: Performance and Potential – Yizhou Hong

Global and Local Trends Impacting Cayman – Jeff Mango

Closing Remarks – Jeff Mango

Network Reception

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AM Best's Insurance Market Briefing - Grand Cayman

Welcome Remarks

Jeff Mango – Managing Director

AM BEST

2026 Market Outlooks

Kourtnie Beckwith – Senior Financial Analyst

Yizhou Hong – Senior Financial Analyst

David Marek – Associate Director

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Property & Casualty

AM Best Market Segment Outlooks

- Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months.
- Outlooks consider:
 - Current and forecasted economic conditions
 - Regulatory environment
 - Lines of business developments: rates, terms & conditions, loss development
 - Competitive issues
- Outlooks can be Positive, Negative or Stable
- Market segment outlooks not directly connected to rating outlooks

AM Best's Market Segment Outlooks – Definition

- A **Positive market segment outlook** indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Positive.
- A **Negative market segment outlook** indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Negative.
- A **Stable market segment outlook** indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

Personal Lines

US Personal Lines Outlook Remains Stable – Tailwinds



Aggressive rate increases and portfolio optimization have led to meaningful improvement in underwriting performance



Carriers remain focused on protecting solid risk-adjusted capitalization



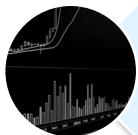
Higher net investment income due to rise in interest rates



More accommodating regulatory treatment of rate increases; rate change needs to be more manageable



Improving catastrophe risk management practices – refined risk appetites & underwriting guidelines



Moderating trends in reinsurance pricing and availability

US Personal Lines Outlook Remains Stable – Headwinds



Loss cost severity remains high due to inflation and rising medical costs as well as more expensive parts and labor associated with newer, more sophisticated vehicles



Uncertainty surrounding overall economic conditions, including the potential impact of tariffs



Continuation of frequent severe weather activity, particularly secondary perils



Increasing levels of competition with more active consumer shopping behavior

Commercial Lines

US Commercial Lines Outlook Remains Stable – Tailwinds



Resilient and strong underwriting margins, despite a riskier economic and geopolitical environment, combined with climate trends and a challenging claims litigation environment



The main players in the segment remain robust levels of risk-adjusted capitalization



Improved investment returns which have bolstered operating profitability, especially in longer-tailed casualty lines



Adequate and stable reserves, although certain lines of business continue to develop adversely



More favorable re-insurance market conditions



Moderating trends in reinsurance pricing and availability



Discipline about risk selection, terms and conditions, and capacity deployment, evidenced by continuation of strong submission flow and sustained growth in the non-admitted/ (E&S) market

Stable Outlooks for Workers Comp, Commercial Property, MPL, E&S

US Commercial Lines Outlook Remains Stable – Headwinds



Social inflation trends with adverse implications for underwriting and reserve margins affecting certain casualty lines of business



Climate trends, increased incidence of “secondary perils” and relatively high property claims costs, despite significant moderation in inflationary pressures



Escalating economic and geo-political uncertainty

Negative Outlooks for General Liability, Commercial Auto, D&O and Title Insurance



Global Reinsurance

Current Outlooks

Global Reinsurance – Stable (1/20/2026)

Global Non-Life Reinsurance – Stable (1/20/2026)

Global Life Reinsurance – Stable (5/7/2024)

Global Reinsurance Outlook Stable – Tailwinds



Reinsurers' risk-adjusted capital positions remain robust, bolstered by retained earnings and prudent capital deployment



Although competitive conditions have increased in P&C covers, disciplined terms & conditions are largely intact. Property exposures are still being priced at levels that suggest technical adequacy on average



Limited new market entrants help preserve rate integrity and prevent new capacity from eroding underwriting margins



Elevated interest rates continue to amplify earnings, complementing underwriting results

Global Reinsurance Outlook Stable – Headwinds



Accelerated softening in property reinsurance pricing, accompanied by modest relaxation of some terms and conditions



Continued elevated frequency and severity of weather-related events, underscored by six consecutive years of global insured catastrophe losses exceeding USD 100 billion



Persistent social inflation and corresponding historical reserve and pricing insufficiency in certain large subclasses of casualty lines of business



Macroeconomic uncertainty, including inflation pressures, shifting monetary policy, and potential volatility in financial markets

AM Best Stress Testing

What is Stress Testing?

- Quantitative & qualitative process
- Use various scenarios
 - Lower probability
 - Higher severity
 - “Normal”
- Measure potential financial impact on:
 - Balance sheet strength
 - Operating performance
 - Cash flow/liquidity
 - Business plans/strategy

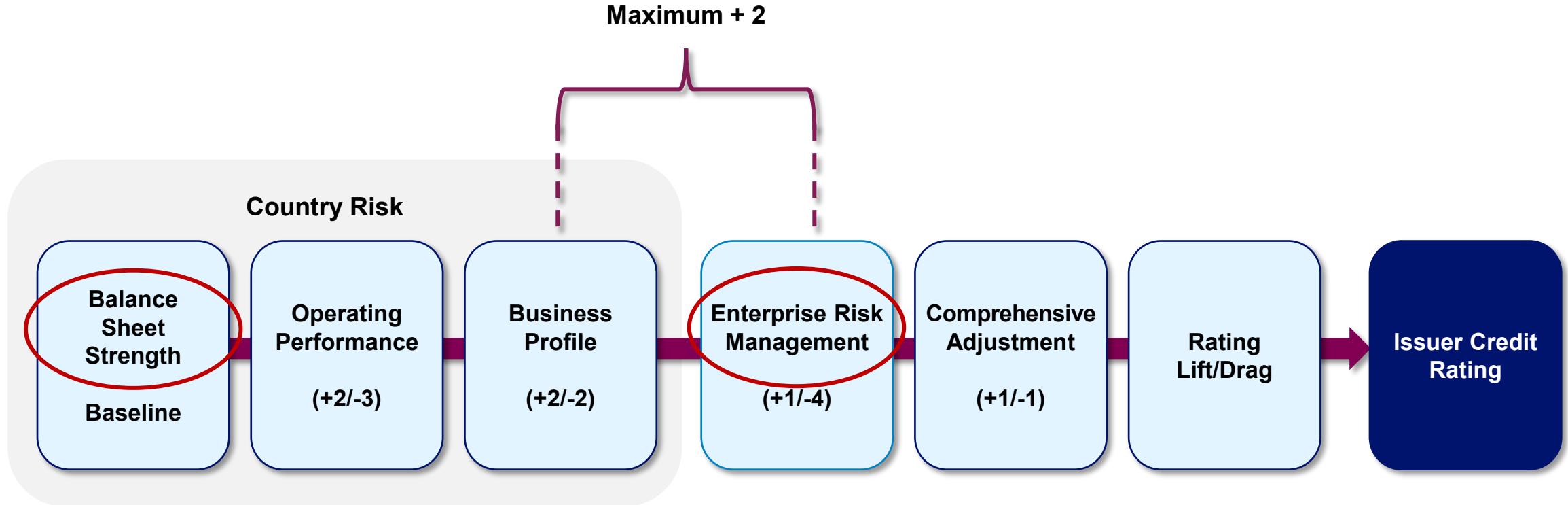


Best's Credit Rating Methodology (BCRM) - Balance Sheet Strength

Rating Unit Review Components	
BCAR	Quality of Capital
AM Best's Stress Testing → Stress Tests	Quality of Reinsurance
Liquidity	Reinsurance Dependence
Asset Liability Management	Appropriateness of Reinsurance Program
Internal Capital Models	Fungibility of Capital

Insurance Holding Company Review Components	
Consolidated BCAR	Operating Leverage
Financial Flexibility/Liquidity	Financial Leverage
Coverage	Intangible Assets

Where Do We Consider Stress Testing in the Rating Process?



AM Best Stress Testing

Threat

- Sudden & severe
- Natural or man-made
- Balance sheet strength
- Ability to pay claims
- Ability to operate

Quantify Impact

- Balance sheet
- Income
- Liquidity
- Business plan

Discuss

- Perils/risks
- Accumulations
- Correlations
- Risk management
- Risk transfer mechanisms

Evaluate

- Appetites/tolerance
- Net exposure
- Multiple events
- Reinsurance structure & dependence
- Liquidity

Best's Credit Rating Methodology (BCRM) – Enterprise Risk Management

Framework Evaluation Review Components		
Risk Identification and Reporting	Stress Testing and Non-modeled Risks	Governance and Risk Culture
Risk Appetite and Tolerances	Risk Management and Controls	Stress Testing
Risk Evaluation Review Components		
Product and Underwriting Risk	Reserving Risk	Concentration Risk
Reinsurance Risk	Liquidity and Capital Management Risk	Investment Risk
Legislative/Regulatory/Judicial/Economic Risk	Operational Risk	

Best's Credit Rating Methodology

- ERM Framework Assessment used for stress testing assessment:

Embedded

Developed

Evolving

Nascent

Unrecognized

Best's Credit Rating Methodology

ERM – Stress Testing and Non-Modeled Risks

- Stress testing for all critical risks
- Quantitative and qualitative
- Actionable contingency plans to remediate stress
- Assess the appropriateness of stress testing vs insurer's risk profile
- At a minimum, reflect historical worst-case scenario severities and correlations
- Back testing, reverse stress testing
- Benchmarking internal models
 - vs. external models
 - vs. BCAR scores at the 99.8 confidence level

Why Stress Test?

Why Should Companies Stress Test?

Determine financial flexibility

Determine robustness of the balance sheet and ability to absorb shocks

Identify risks/scenarios that may cause insolvency

Determine need for reinsurance

Develop action plans

Regulatory requirements (for some)

Importance of Reverse Stress Testing

What is reverse stress testing and why is it used?

- Examines scenarios that would cause a company to fail
- Identifies gaps and vulnerabilities in the business model
- Helps to develop a plan to manage and mitigate key weaknesses
- Used to complement sensitivity and scenario analyses
- Expected by some insurance regulators

Relevance to rating assessment?

- Explicitly captured in AM Best's ERM framework evaluation
- Events – helps to see how far they are in the tail and how they are managed
- Allows better risk quantification
- Risk correlations – helps with understanding and asking relevant questions
- Allows for better comparability across insurers
- A sign of maturity of the overall ERM of the company and the market

Observations Stress Testing

Observations on Stress Testing

Covers key risks and provide challenge

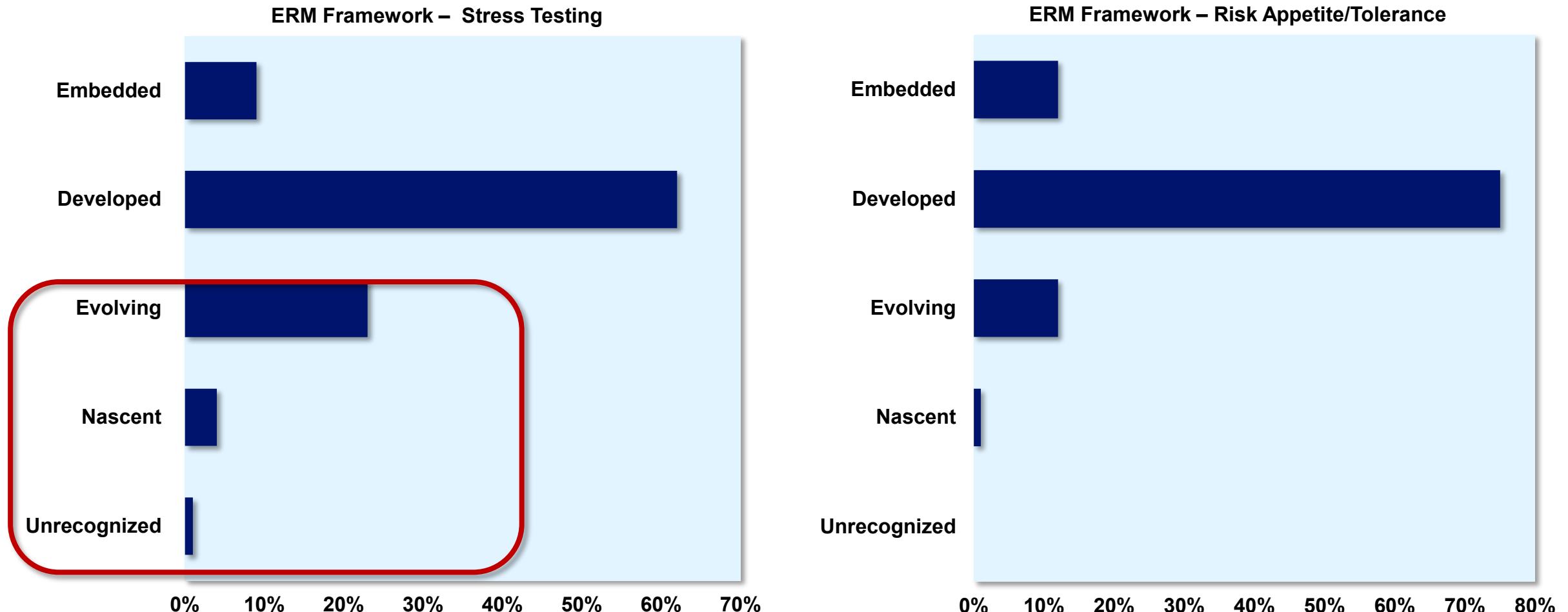
Forward-looking and subject to refinement

Incorporates various events/levels of severity

Produces clear outputs

Helps set capital requirements

Stress Testing in the ERM Framework



Practices of Companies Where Stress Testing Is Deemed To Be Embedded

Stress scenarios proven, use long periods, include multiple events and various crises

Regular use of models

Routine scenario testing

Risk tolerances set and closely monitored

Integrated for verification of capital

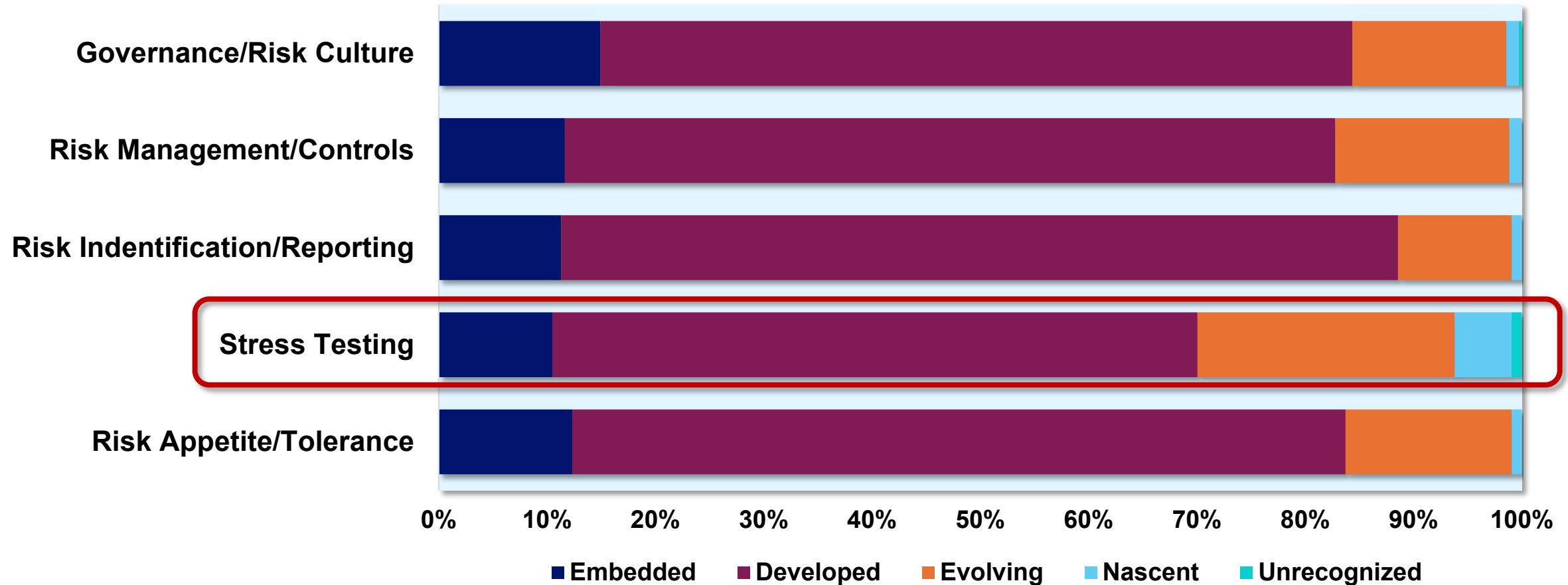
Conducted at company and group levels

Reverse stress tests identify scenarios where losses exceed capital or have a significant impact on financial soundness

Reported at management meetings and to board of directors

ERM Assessment – Global Risk Framework Evaluation

Stress Testing – Remains a Weakness



Observed Successes

**Deterministic
events**

Actual events

Multiple events

Multiple models

Increasing limits

Observed Failures

Not understanding true exposure

Not considering all plausible scenarios

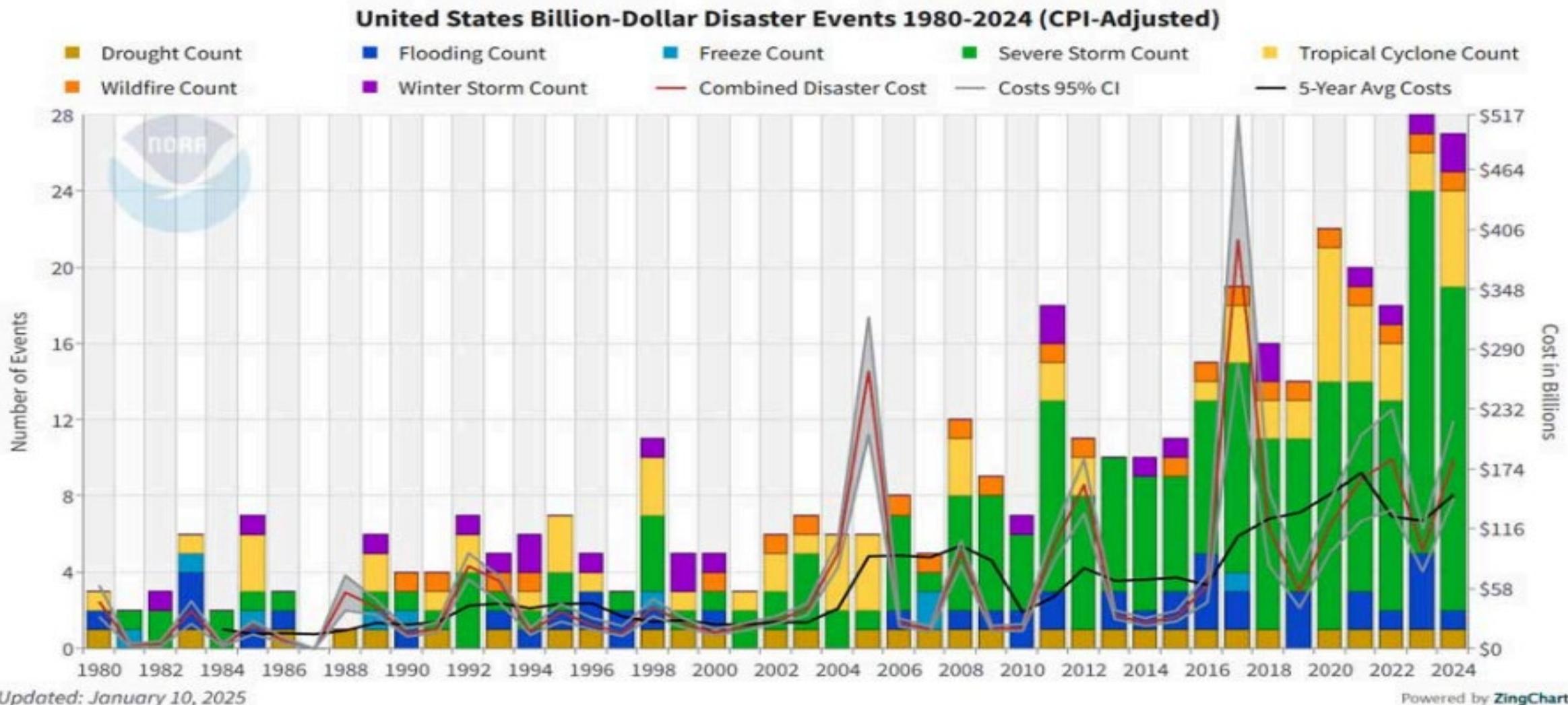
Heavy dependence on reinsurance

Higher net retentions

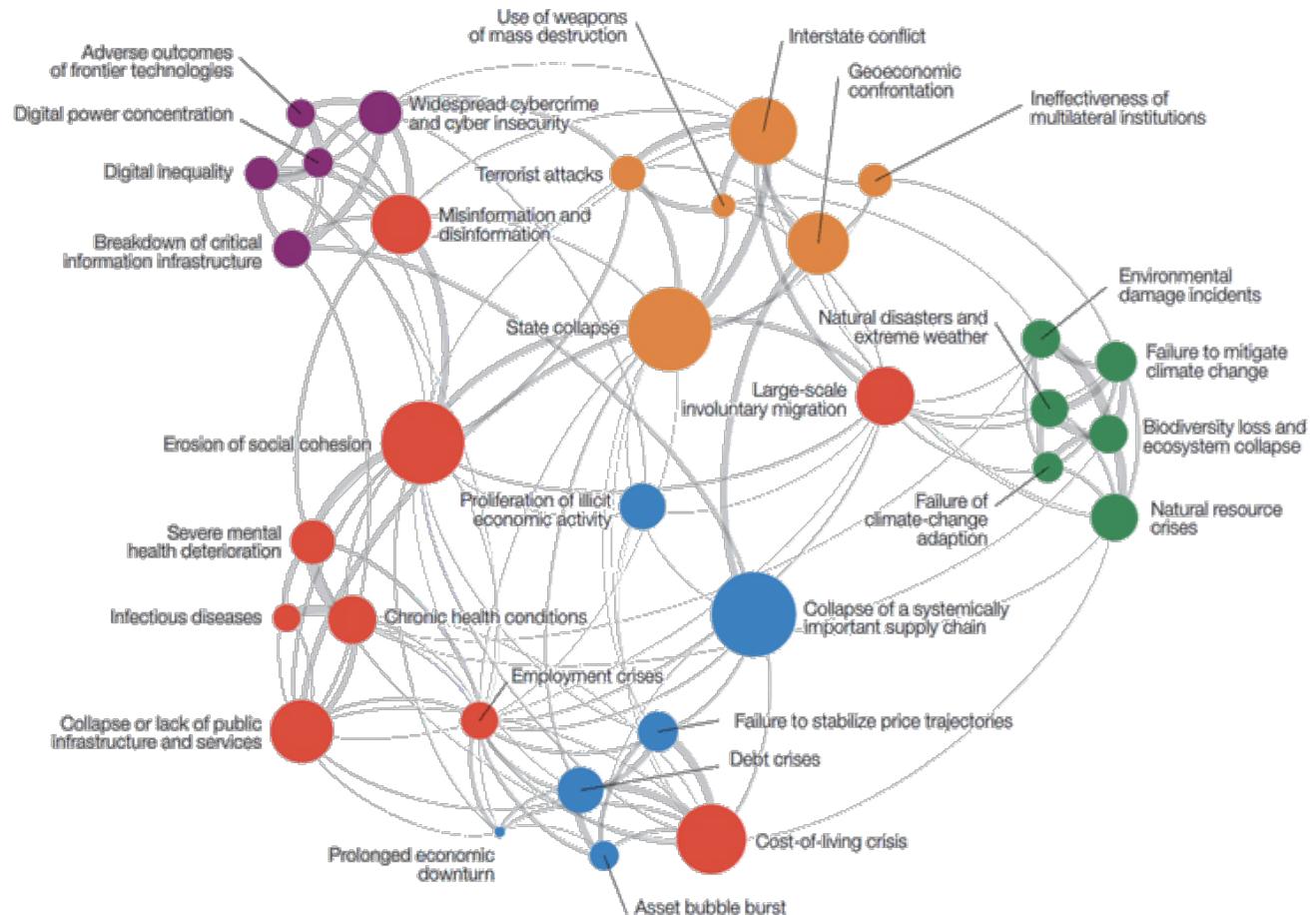
Increased frequency & severity

Secondary perils problematic

Events & Interconnectivity of Risks



Interconnectivity of Risks



Market environment – increasingly interconnected between risk categories, with a higher degree of contagion

- **Economic**
- **Environmental**
- **Geopolitical**
- **Societal**
- **Technological**

Source: World Economic Forum - Global Risks Report 2023

Key Takeaways

Key Takeaways

Analysts

- Will consider which stresses are appropriate to perform in the BCAR
- Will review company's stress testing

Insurers

- Should perform relevant stress testing and explain the scenarios and their impact on operations
- Should look outside the box to assess emerging risks and any potential correlations
- Important to get a view on reverse stress testing
- Prepare contingency plans and protocols to restore capital

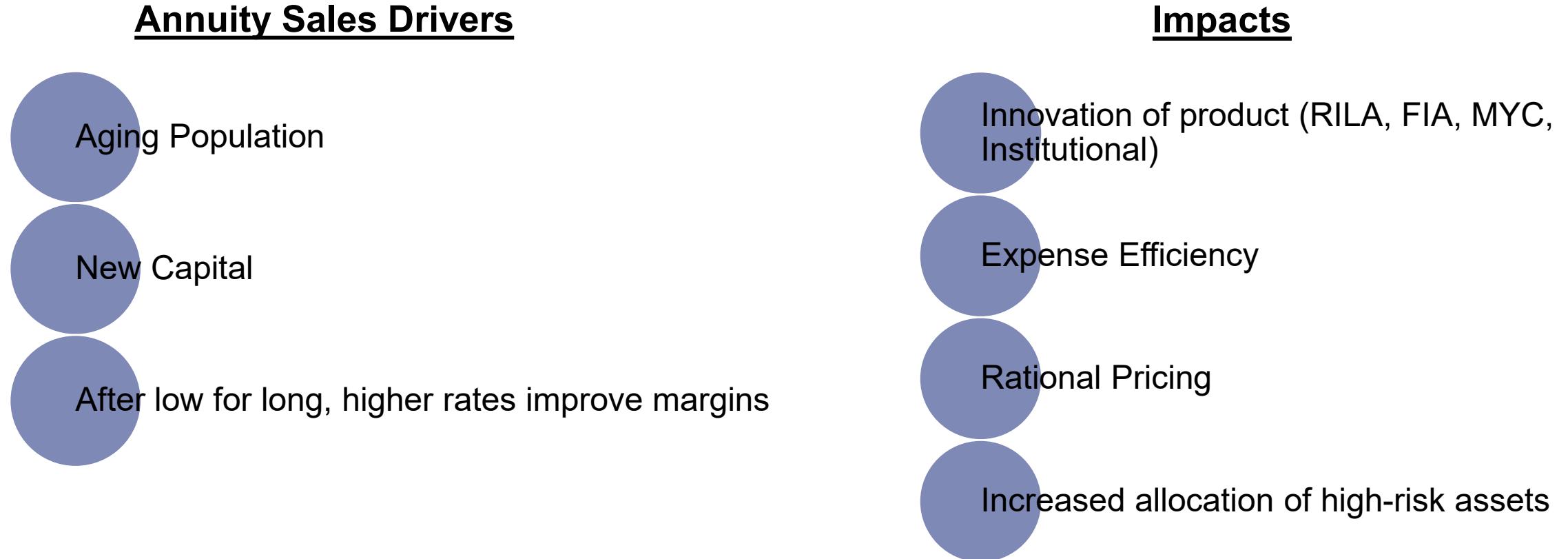
2026 Life and Annuity Outlook

2026 Life Annuity Market Segment Outlook

AM Best is maintaining its outlook of Stable for the Life & Annuity segment, based on the following factors:

- Strong level of capital and risk adjusted capital despite strain of top line growth
- Strong top Line growth/strong demand
- Surging fixed and RILA sales
- Strong bottom line
- Increased Reinsurance and deteriorating quality of assets and capital

Life Annuity Segment – Driver of Strong Expected Sales in 2026



Life Annuity Outlook Stable – Headwinds



Strength of competition



Increased risk taking/private credit



Legacy liabilities



Expected decline in rates



Increased surrenders

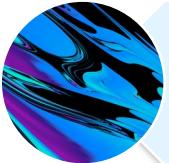


Market volatility

Life Annuity Outlook Stable – Mitigants



Commitment to strong asset/liability matching



Stress testing of liquidity



Renewed focus on ERM



Derisking through block sales



Holistic capital management

Life Annuity Segment – First 9 Months of 2025

- Net premiums / considerations down 6.5% from 3Q24, but up 6.5% from 3Q23. 3Q25 drop driven by drop in Group Annuities sales.
- Investment income up 9.2% from 3Q24 to 3Q25, following on an increase of 8.8% from 3Q23 to 3Q24 (What is invested asset total? What is driving this increase)
- Amount coming through reserve adjustment for reinsurance is substantial – delta of \$118M from 3Q24 to 3Q25. This is materially offset by the increase in reserves of \$74 from 3Q24 to 3Q25.
- Pre Tax Operating Gain and Net Income increased from 3Q24 but lagging 3Q23.

US Life/Annuity – YTD Statutory Quarterly Results, Q323 through Q325 (\$billions)

	3Q23	3Q24	3Q25
Premium & Annuity Considerations	559.4	634.5	595.8
Net Investment Income	163.5	177.8	194.3
Commissions and Expenses on Reinsurance Ceded	29.5	24.7	36.9
Reserve Adjustments on Reinsurance Ceded	4.5	-35.1	83.1
Fee Income	28.5	27.3	27.1
Misc Income	18.5	18.7	27.9
Total Revenue	806.1	843.2	963.4
Death Benefits	67.9	66.8	68.7
Annuity Benefits	75.5	80.5	84.1
Surrender Benefits and Withdrawals	301.6	364.7	356.4
Increase in Reserves	77.4	54.9	129.7
Pretax Operating Gain	55.6	30.4	34.8
Net Income	31.2	20.4	25.0

Life Annuity Segment – First 9 Months of 2025

- Capital and Surplus continues a trend of steady growth year over year.
- Projected to grow in the near term by modest amounts.

**US Life/Annuity – Capital & Surplus
(\$billions)**

	3Q24	3Q25	YoY % Change	*2025E	*2026E
Prior Year-End Capital & Surplus	508.3	520.6	2.4	518.2	542.0
Net Income	20.4	25.0	22.4	28.8	34.6
Change in Unrealized Gains/Losses	5.5	14.4	162.8	15.0	-
Change in Asset Valuation Reserves	-7.5	-11.9	57.5	-7.7	-
Other Changes in Surplus	4.5	5.1	11.6	4.0	4.0
Contributed Capital	6.4	4.1	-36.2	11.5	11.5
Stockholder Dividends	22.9	18.9	-17.4	27.7	27.7
Ending Capital & Surplus	514.7	538.8	4.7	542.0	564.3
Change in C&S from Prior YE (\$)	6.4	18.2		23.8	22.3
Change in C&S from Prior YE (%)	1.3	4.0		4.6	4.1

*Estimated

Structural Shifts

The Insurance Landscape

- Traditionally liabilities looking for assets.
 - Assets protect idiosyncratic mortality and morbidity risks.
- Pre 2022 – more capital light products / less guarantees.
- In Covid, insurers did provide liquidity, buying longer dated corporates (with a nice liquidity premium) while mutual funds and other investors sold.
- More recently – Annuity Assets looking for liabilities.
- Post 2022 – rates rise, shift back to guarantees such as myga – more capital intensive.
 - AIR reduces cedant's capital intensive lines and provides access to new growth capital.

Structural Shifts and the Great Financial Crisis

- Structural shift has gone on in the life and annuity industry since the Great Financial Crisis.
- At that time, the US Housing bubble and subprime mortgage market collapsed, and a severe worldwide economic downturn ensued.
- Some of the identified causes

Growth of
Alternative Assets

Easy Credit surges
in high-risk loans
and securitization
into “investment
grade” investments

Banks held
overvalued assets
on their balance
sheets

Structural Shifts – Today

- Benefits to Asset providers - access to steady funding vehicles, exposure to longer assets and ability to allocate insurers funds to the assets they originate.
- Duration gaps have narrowed
 - Attributed mainly to rising rates / stepper discounting and not necessarily from industry initiatives.
- Most common deals have been offshore and affiliated – creates conflicts of interest and opaqueness.
- Investments beyond PE are also opaque –real estate and alternative credits instruments.
- Surrenders are up since 2019.

Structural Shifts – Regulatory Concerns

Standard systemic risk metrics have increased since the GFC for the insurance sector

PE growth leads to governance issues

In some geographies, (re) insurers are riskier

Conclusions - changes to support growth and capital also increase risks in other areas

These developments can cause economic stress and amplify liquidity needs

What is the next potential black swan event

Insurance products are more complex

Asset Intensive Reinsurance - Description

- Asset-intensive reinsurance (AIR) – a strategy used by annuity and life insurers to optimize their capital by transferring the risks associated with capital-intensive policies to reinsurers.
- Transferred Risks related to the liabilities
 - Longevity, risk, mortality risk, reinvest and disintermediation
 - Liquidity risks that move in tandem with policyholder behavior risk
- Transferred Risks related to the assets
 - Credit risk, market risk, liquidity risk
- New Risks
 - Counterparty / Recapture

Asset Intensive Reinsurance - Description

A conversion of a portion of future uncertain profits associated with investment returns into an immediate profit, particularly if the net consideration paid by the cedent is lower than reserves being reinsured. In some cases, this may result in a reduction of expected future profits, at the benefit of releasing capital backing asset-intensive insurance liabilities.



Investment providers generally provide the capital in the equation by establishing / investing in reinsurers for AIR.



Alternative asset managers also gain access to the space by acquiring primary insurers and providing asset management services in private markets to insurers.

Asset Intensive Reinsurance - Implications

- Tend to use special purpose reins vehicles aka sidecars - very complex deals.
 - Redemption rights (so not as permanent as they could be) that shorten the durations of the assets.
- Amplifies shocks at the cedant when liabilities are suddenly recaptured.
- Arrangements and its collateral structures are frequently bespoke and increasing in complexity over time.
- Reinsurance recapture risk is a scenario that should be stress tested.
- PE tend to hold non-Qual mortgage loans – higher loan to value - higher yield but uncertain if the full risk premium is there.

Alternative Assets

While the initial shift was driven by the low interest rate environment, the trend has continued even as rates rose, suggesting a more structural change in life insurers' asset management strategies.

The increased allocation to alternative assets in life insurers' portfolios marks a significant shift.

Offer numerous advantages, including diversification / low correlation to traditional assets, a liquidity premium, hedge against inflation, increased potential returns and better alignment with long-term liabilities.

However, this shift also introduces risks, including valuation uncertainty, illiquidity and complexity, as these assets often lack transparent and liquid markets.

Hidden leverage, conflicts of interest and information gaps can exacerbate these risks, necessitating robust risk management and oversight.

Alternative Assets



Middle market firms too risky for large banks and too small for public markets.



Alternative assets reported as bonds, but some are shifting to BA.



Has banking regulation shifted the risks of excessive leverage and illiquidity into the life insurance sector?



CLO impact - leveraged loans have been securitized and sold to other investors such as insurers.



Need for proportional regulation – real estate is traditional asset in some sectors and nontraditional in others.

Alternative Assets – 4 Key Risks



Liquidity



Uncertainty of valuations



Hidden leverage – embedded within fund structures



Affiliated investments – question regarding the arm's length of the transaction

- Recapture with alternative, affiliated assets is a concern that cedants need to stress test

Stress Test

- During historical stress periods, including the 2008 GFC, many alternative asset classes demonstrated greater resilience than public equities.
- This highlighted that privates often exhibit lower volatility and correlation patterns compared to public markets.
- Evidence suggests that certain alternative asset categories —such as infrastructure investments, private credit and specialized private equity sectors — demonstrated significantly less drawdown during previous market corrections.
- The illiquid nature of many alternative investments can insulate them from short-term market volatility.
- In times of stress, increasing surrenders can become cyclical.
- Can the insurance industry truly have a “run on the bank scenario”?

Opacity / Private Credit Erosion

International bodies such as the International Association of Insurance Supervisors (IAIS) and Bank for International Settlements (BIS) are warning against the risks of the structural shifts in the life and annuity sector

Systemic risk metrics measured by organizations such as the BIS have doubled since the GFC

Publishing warnings about alternative assets and using Asset Intensive Reinsurance to shed policy obligations

Moodys, BIS and IAIS all say growth in this opacity needs closer scrutiny to ensure that there is not systemic risk amping up in the insurance industry

Private credit – largest holding is still middle market loans but consumer loans, litigation financing and intellectual property royalties are more opaque and increasing

Impacts & Suggestions

Opacity Impacts

These changes produce challenges for the regulators and supervisors

Push for scrutiny and transparency very well could slow down growth

Calls for mandatory liquidity stress tests

Calls to eliminate regulatory arbitrage

Regulatory response – tighten oversight

BMA approving assets and pre approving reinsurance transactions

Private Credit Impacts

Lots of regulatory suggestions -

- 1) Requiring standardized reporting on AIR and PE interlinkages to improve monitoring
- 2) Capital charges that scale with geographical or operational concentration to mitigate concentration risks;
- 3) Hardwire liquidity risks into existing regulatory frameworks;
- 4) Enhancing transparency and disclosure to lessen ratings shopping in structured deals;
- 5) Harmonizing international standards to reduce regulatory arbitrage;
- 6) Strengthening governance frameworks to mitigate conflicts of interest;
- 7) Adopting a macroprudential perspective that tracks common exposures and funding risks, as well as financial interlinkages.

2026 Delegated Underwriting Authority Enterprises Market Outlook

2026 Duae Market Segment Outlook

AM Best is revising its outlook from Positive to Stable for the global delegated underwriting authority enterprises (Duae) segment, based on the following factors:

- Sustained albeit moderating growth
- Capacity remains strong but becomes more selective
- Added scrutiny and expectations from market participants
- Optimism among insurers, reinsurers and investors remain
- Niche expertise, talent, and technology continue to support versatility

Global DUAE Market – Tailwinds



Demand for specialization



Niche expertise and tailored solutions



Technology & talent will remain key differentiators



Carriers and investors still bullish on market

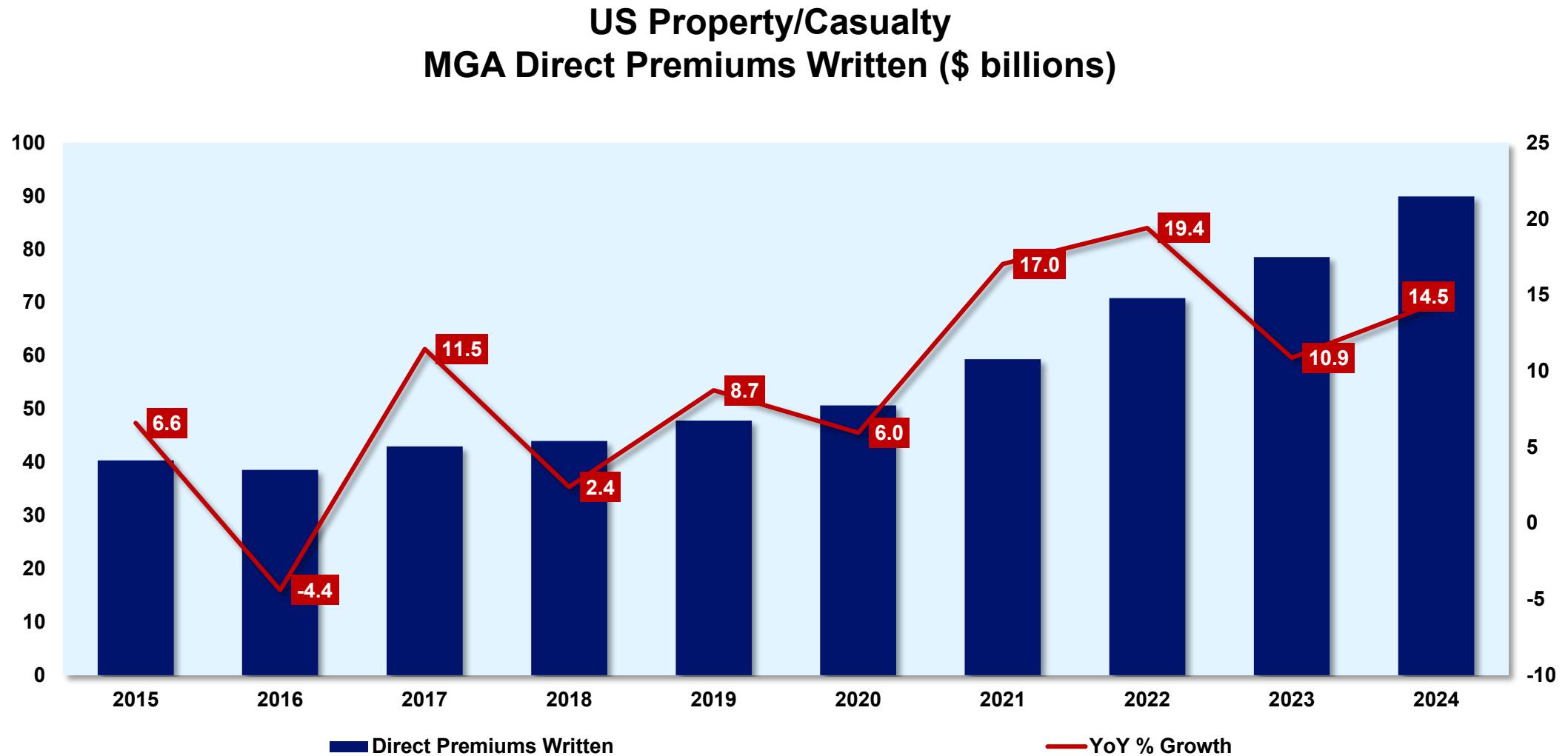


Capacity remains robust

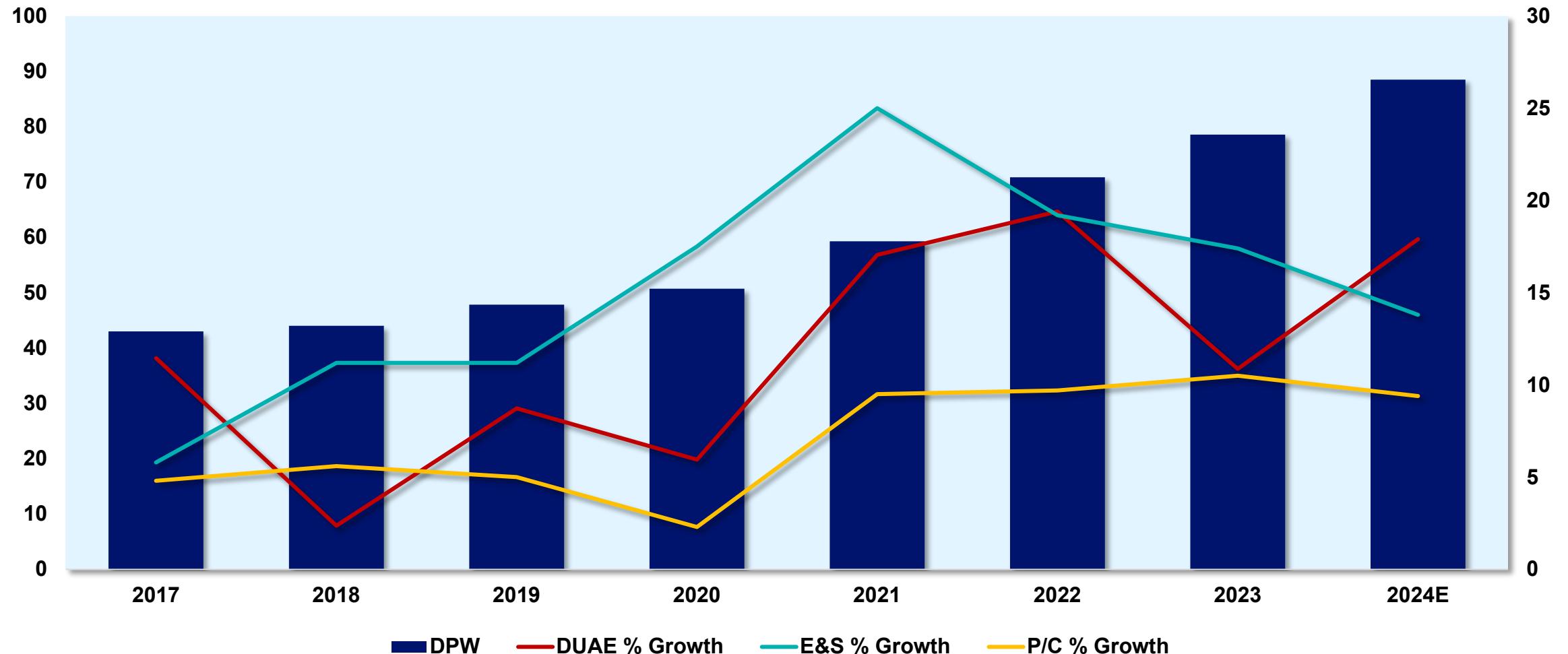


Continued growth in E&S and fronting sectors

Growth of DUAEs/MGAs in the Value Chain



DUAE Premium Growth Still Robust, Buoyed by E&S; Outpaces P/C



Global DUAE Market – Headwinds



Increased competition



Additional scrutiny by market participants



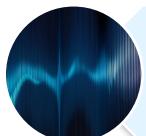
Capacity not without challenges



Rates likely to moderate



Economic & political uncertainty



Casualty pressures

AM Best Market Survey on DUAEs

Market Survey Report

BEST'S MARKET SEGMENT REPORT

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SINCE 1899

Our Insight, Your Advantage®

February 3, 2025

A preponderance of insurers expects DUAE-sourced premium to continue to grow

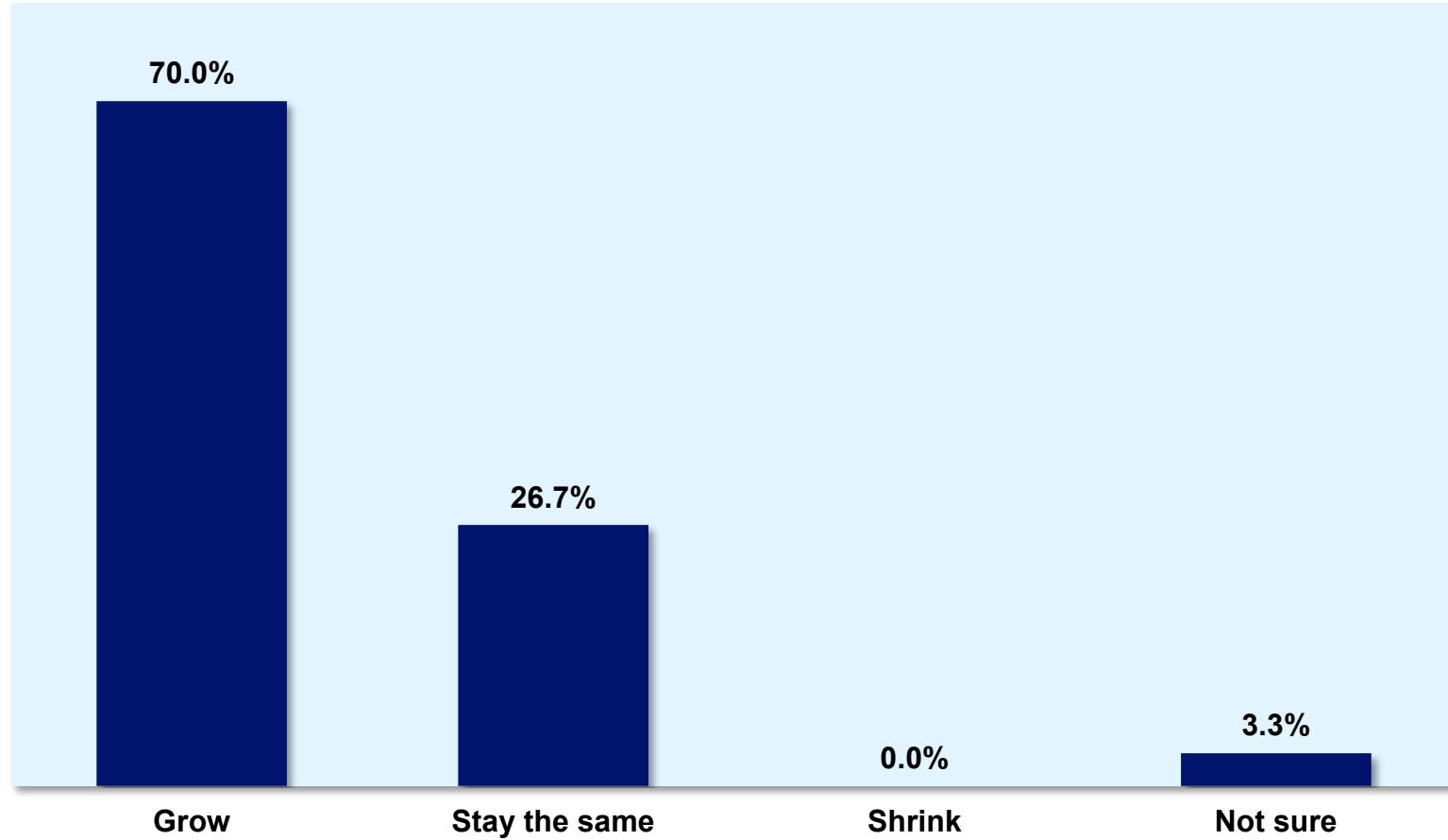
Sustained Growth Potential for DUAE Market Segment

In August 2024, AM Best conducted a market-wide survey of rated carriers globally to assess the strengths, challenges, and evolving expectations of the delegated underwriting authority enterprises (DUAE) segment. AM Best defines a DUAE as a third-party entity that is contractually appointed by an insurer or reinsurer to perform underwriting, claims handling, or other administrative functions on behalf of their carrier partners. Survey results paint a picture of a segment that is highly valued for its specialization, agility, and adoption of technology—but one that is also under pressure owing to challenges in understanding and maintaining regulatory compliance, financial stability, and accountability.

Key Takeaways

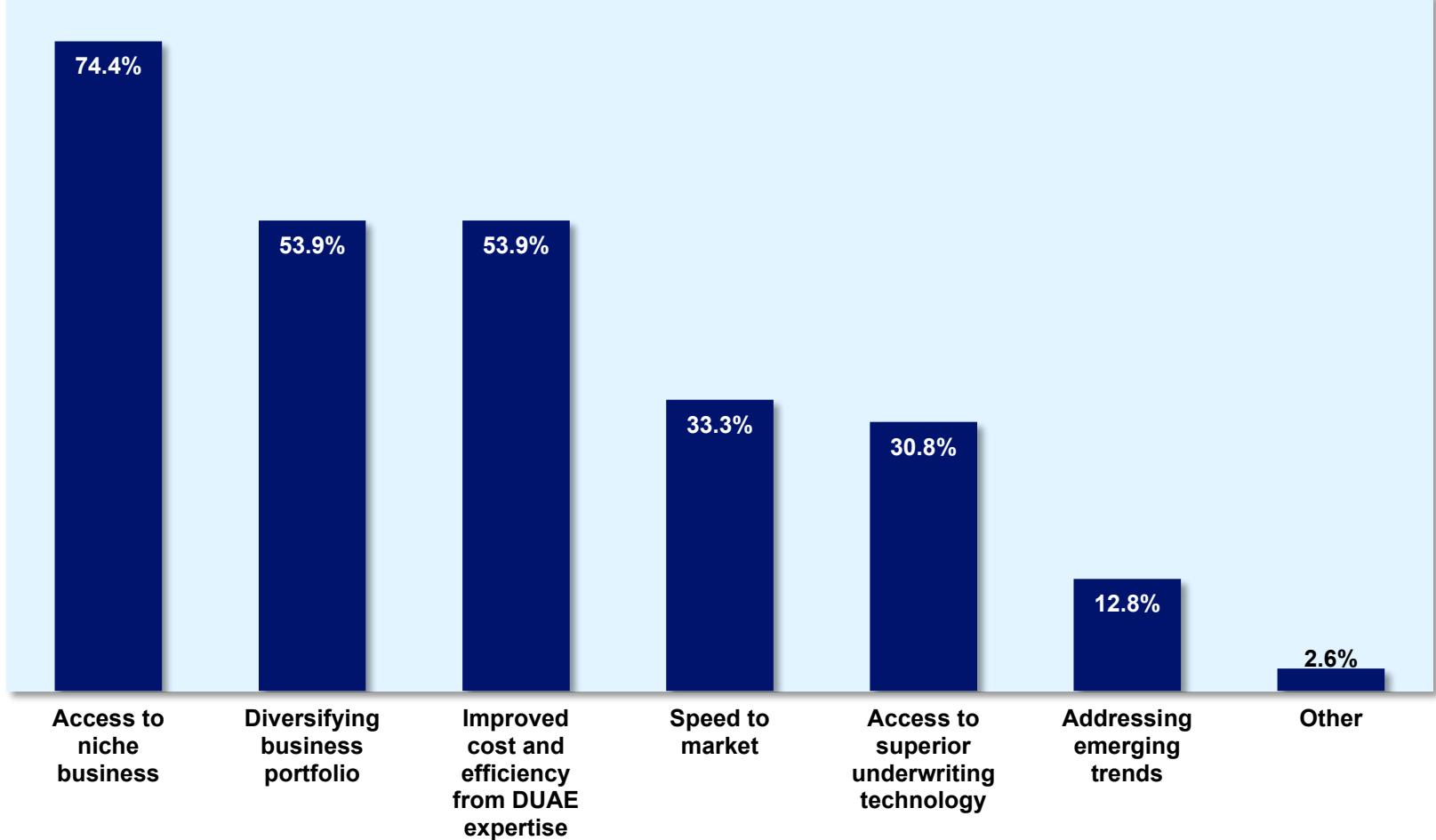
- The survey finds that carriers highly value the flexibility of the DUAE segment.
- The DUAE market's potential to sustain recent growth trends is directly tied to the expertise of these entities.

Carriers Expectation of Their DUAE-Sourced Premium

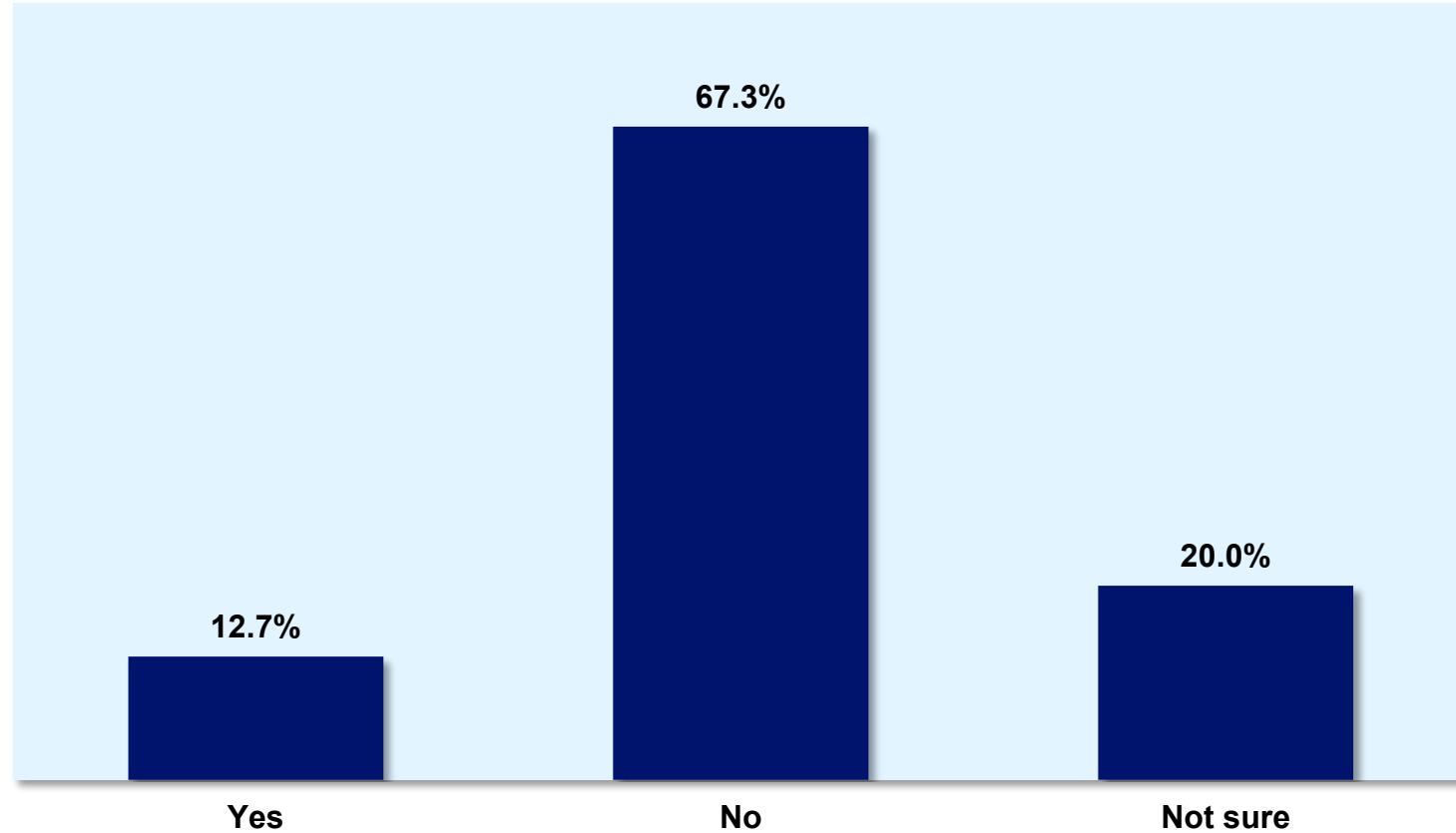


Top Reasons for using DUAEs

**Ability to offer
niche expertise
and tailored
solutions for
specialty lines
and emerging
risks**



Carriers Expectation to Partner with New DUEEs



Carriers View: Top 3 Strengths & Weaknesses of Program Business

Top 3 Strengths

1. Expertise or Specialized Underwriting

75.0%

2. Distribution

69.4%

3. Technology / Data Analytics

52.8%

Top 3 Weaknesses

1. Relationships or objective misalignment

29.0%

2. Consolidation

19.4%

3. Capacity Availability

16.1%

AM Best Performance Assessment and Benchmark

AM Best's PA for DUAEs

AM Best's PA for DUAE is a comprehensive assessment of a DUAE's relative ability to perform services on behalf of its insurance partners



Best's PA for DUAE serves as a **benchmarking tool** for the DUAE segment

Best's PA provides a **forward-looking, independent, objective opinion**

Best's PA for DUAE is **interactive process** that focuses on the **fast-paced growth** of the DUAE segment



AM Best's Process for Assessing DUAEs

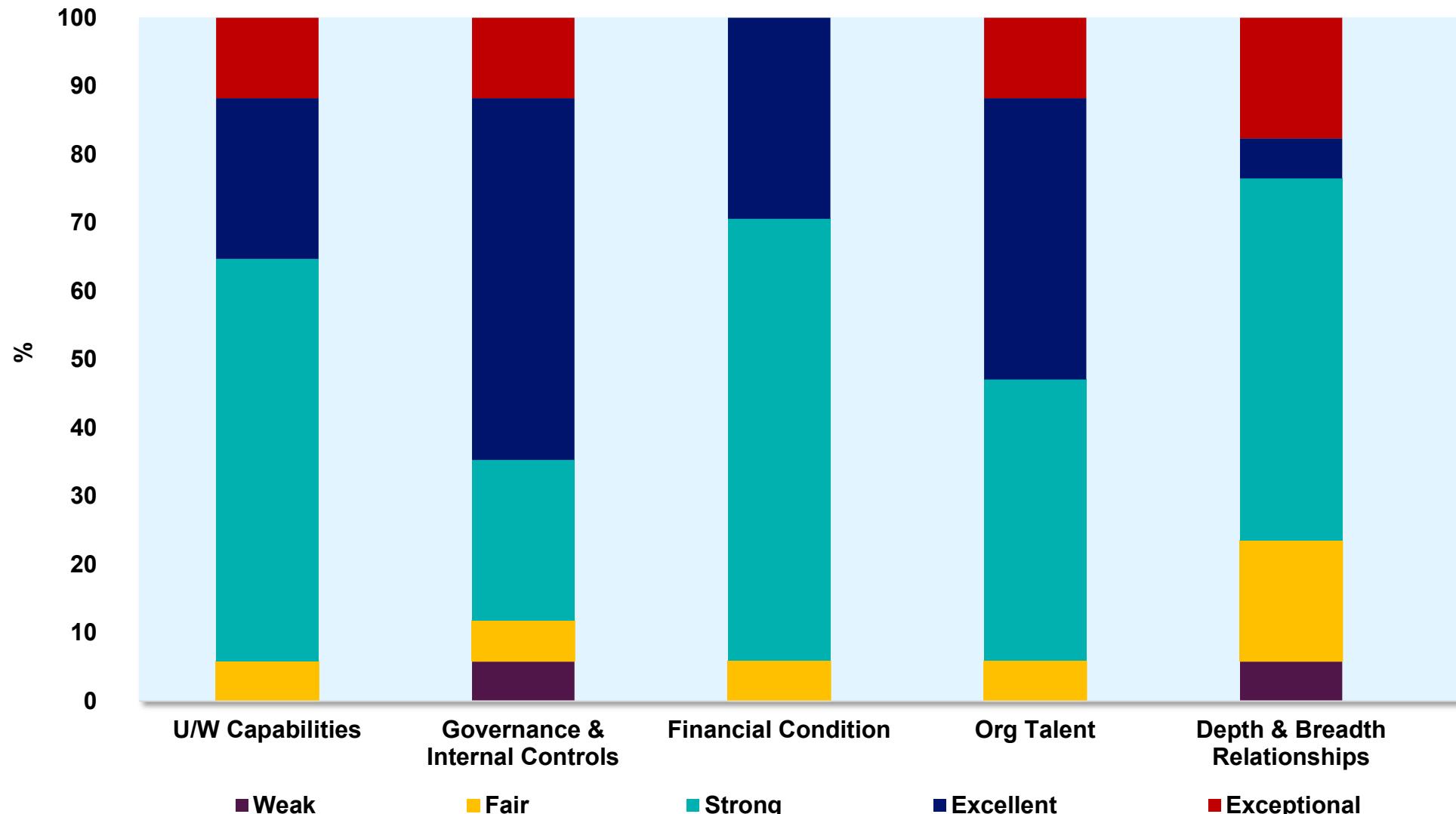
AM Best uses quantitative and qualitative elements to assess the strengths and weaknesses of a DUAE.



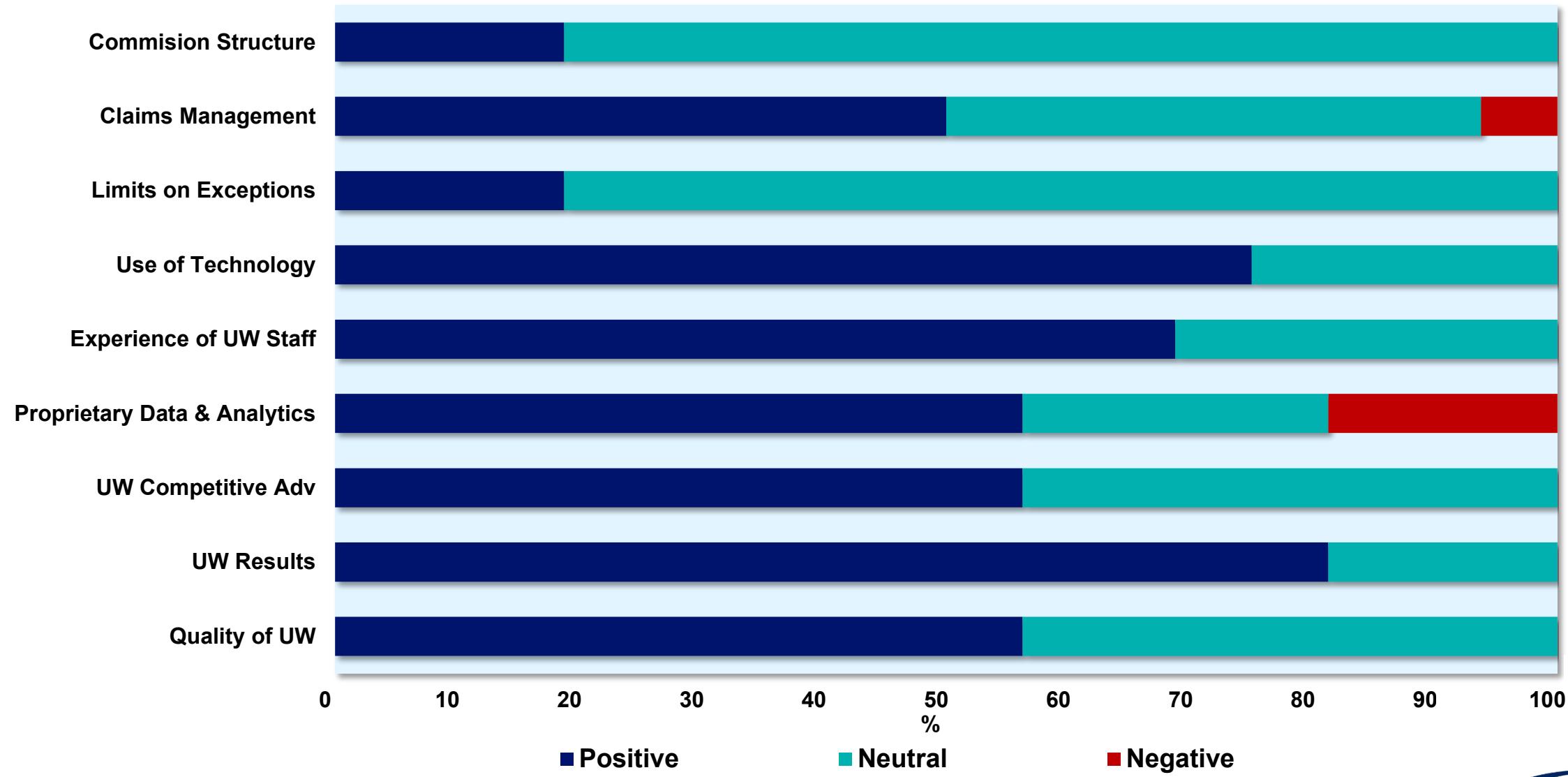
PA Process Flow



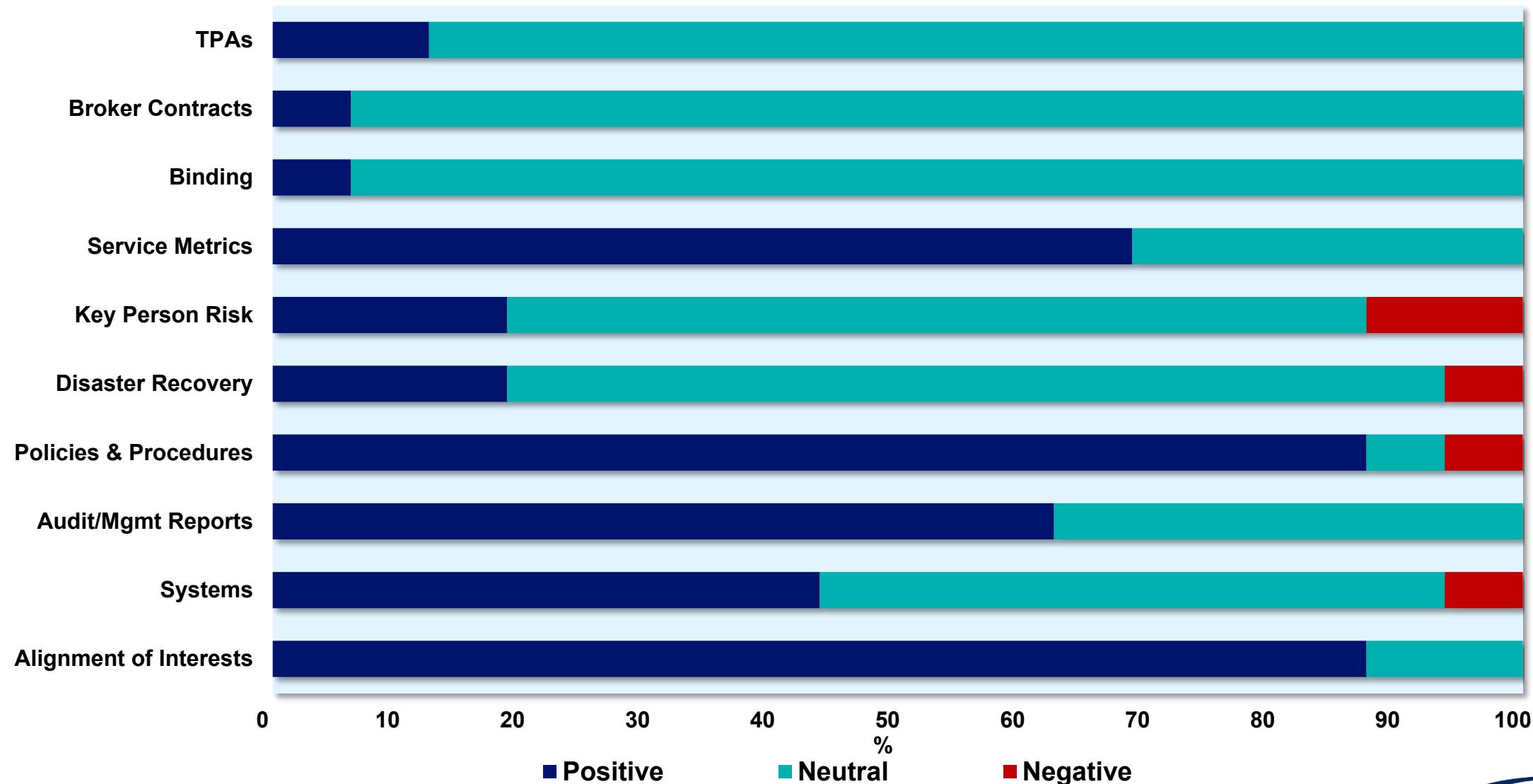
Performance Benchmark – Overview



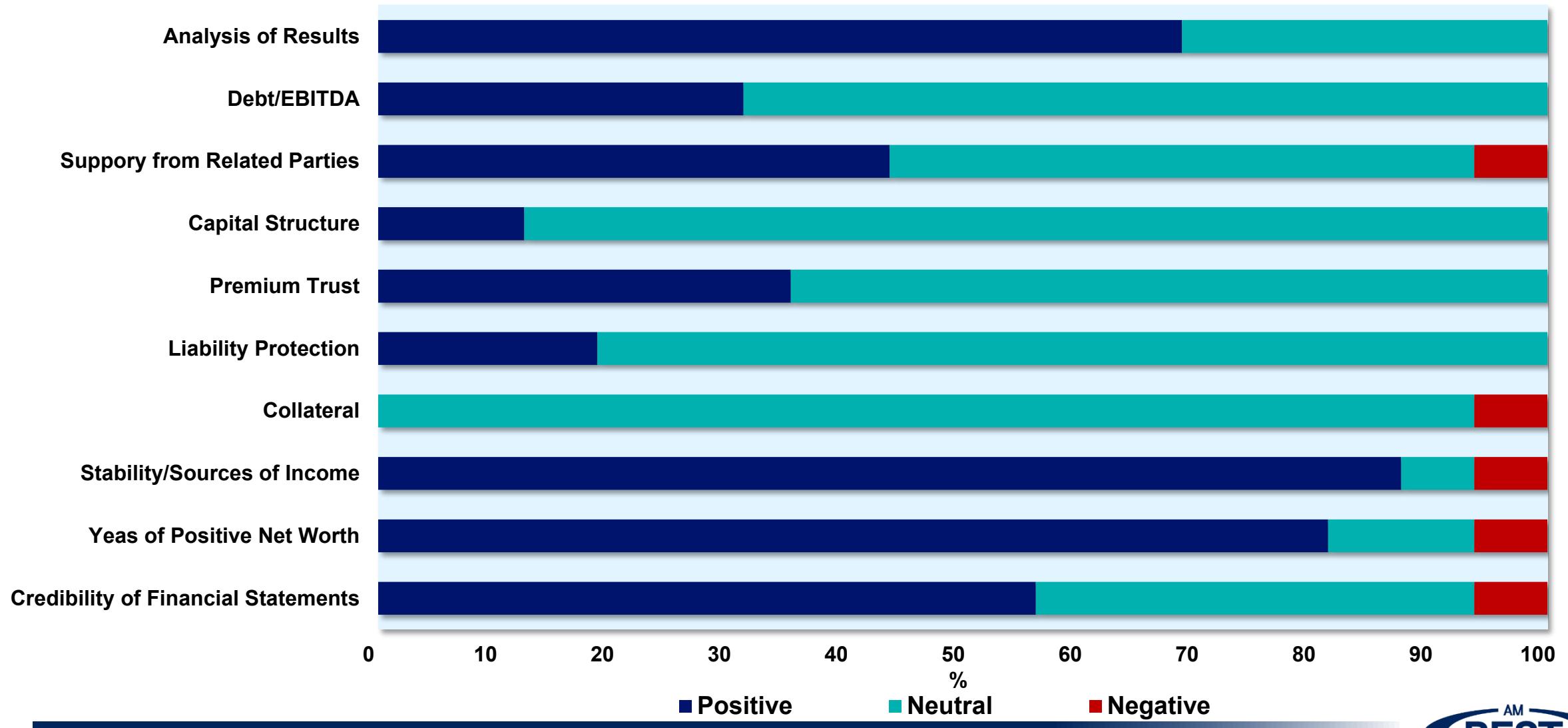
Performance Benchmark – Underwriting Capabilities



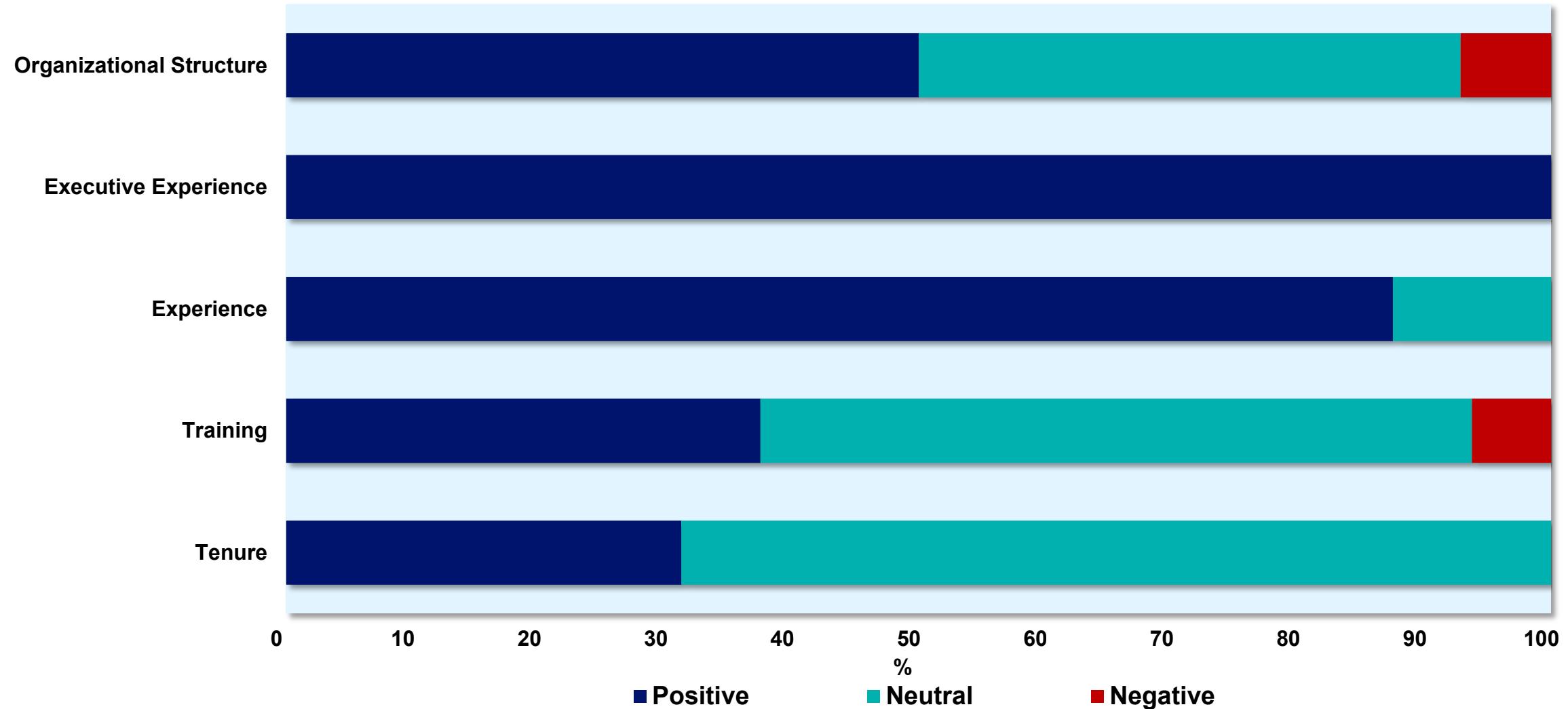
Performance Benchmark – Governance & Internal Controls



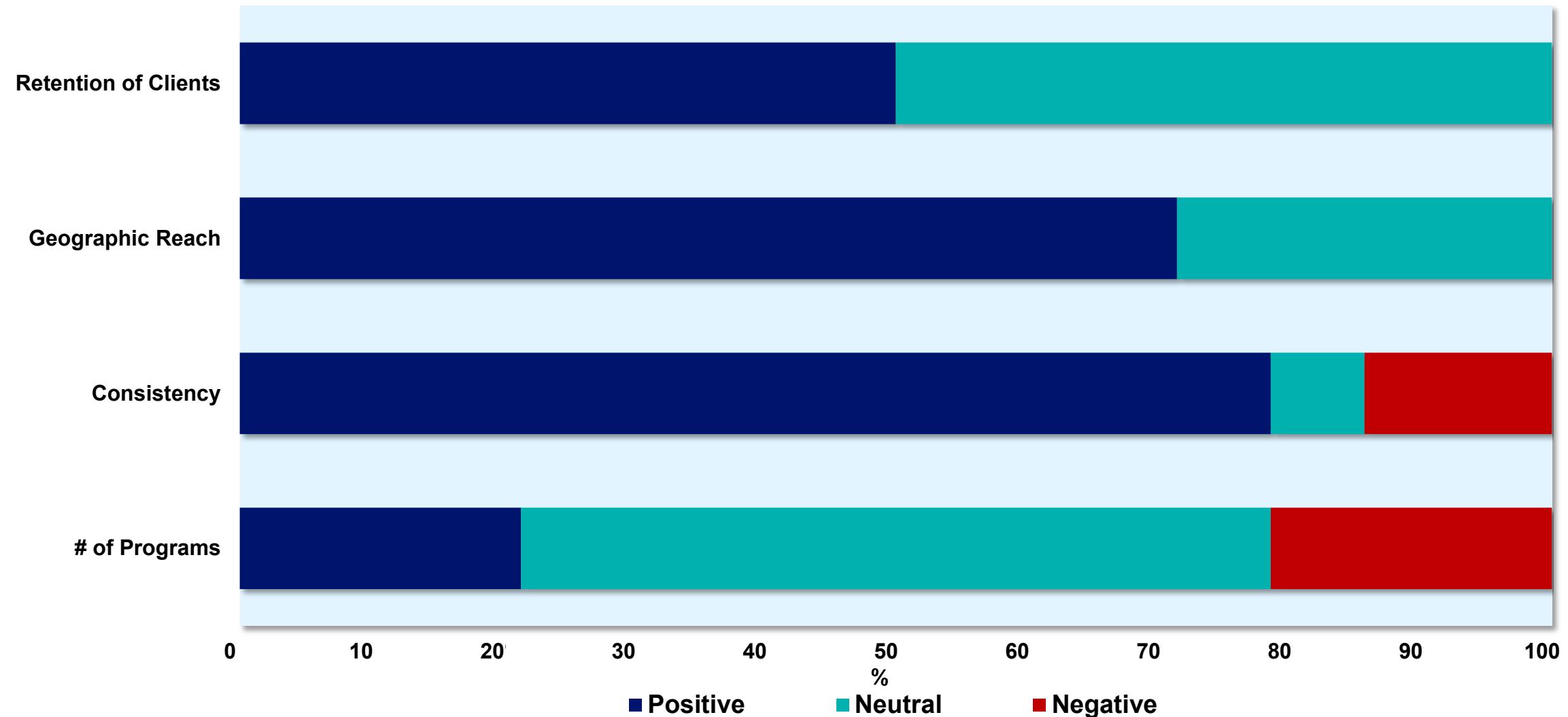
Performance Benchmark – Financial Condition



Performance Benchmark – Organizational Talent



Performance Benchmark – Depth & Breadth of Relationships



AM BEST

Global and Local Trends Impacting Cayman

Jeff Mango – Managing Director, AM Best

Kieran Mehigan – Managing Director, Marsh

Faramarz Romer – Group Chief Financial Officer, Greenlight Re

AM Best's Insurance Market Briefing – Grand Cayman

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AM BEST

AM Best's Insurance Market Briefing - Grand Cayman

Closing Remarks

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