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Market Segment Outlook: Global Non-Life Reinsurance

While clearly descending from its peak as a “generational” hard property reinsurance market, overall conditions support underwriting profitability and solid overall operating performance in 2026

AM Best has revised its outlook for the global non-life reinsurance segment to Stable from Positive, owing to the following factors:

- Accelerated softening in property reinsurance pricing, accompanied by modest relaxation of some terms and conditions.
- Persistent social inflation and corresponding historical reserve and pricing insufficiency in certain large subclasses of casualty lines of business.
- Continued elevated frequency and severity of weather-related events, underscored by six consecutive years of global insured catastrophe losses exceeding USD 100 billion.
- Macroeconomic uncertainty, including inflation pressures, shifting monetary policy, and potential volatility in financial markets.

Counterbalancing these less favorable trends are several key positive factors:

- An overall supportive pricing environment that should promote solid operating results in 2026.
- Robust risk-adjusted capital positions, reinforced by prudent capital management plans.
- Sustained underwriting profitability in property catastrophe covers, despite competitive pressures, still benefiting from terms and conditions tightened in the last few years.
- Elevated interest rates, which continue to enhance investment income and provide an earnings tailwind.
- Limited new market entrants, helping to preserve rate integrity and preventing new capacity from eroding underwriting margins.

Accelerated Rate Softening; Terms & Conditions Largely Holding

The outlook revision to Stable from Positive underscores increasing pressure on property reinsurance pricing, which may challenge the non-life reinsurance segment's ability to sustain the very strong operating performance that the sector has achieved for the past three calendar years. The January 1, 2026, renewal period saw property reinsurance rates fall between 10% and 20%, with the greatest decreases observed on non-loss-impacted accounts. These declines bring pricing closer to pre-2023 renewal levels, when severe market dislocation led to dramatically improved risk-adjusted pricing and stricter terms and conditions that included an industry-wide retrenchment away from lower layers of property catastrophe reinsurance programs.

Notably, while rate softening has accelerated, particularly in more remote property catastrophe layers, reinsurers have largely upheld underwriting discipline, maintaining higher attachment points and tighter coverage terms and conditions. Although projected margins have narrowed, property exposures are being priced at levels that still suggest alpha above technical adequacy.

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While there has been some relaxation in terms and conditions, AM Best has not observed significantly lower retentions. Instead, the changes have been more focused on broadening policy wording and narrowing exclusions. These changes can have a meaningful, but typically lesser, impact than more substantive structural changes to reinsurance programs. There has been an increase in available capacity for aggregate covers, which can be viewed as a possible early indication of a deteriorating market. While reinsurers' willingness to write aggregate covers has increased to an extent, these treaties are still generally being structured with higher attachment points or to provide second-event covers, as opposed to providing earnings protection to ceding companies. Within the context of the overall operating environment, AM Best expects reinsurers' aggregate underwriting performance to remain solid in 2026, barring outsized catastrophe events occurring over the course of the year.

Capital positions remain exceptionally strong, with roughly USD 540 billion in traditional reinsurance capital and USD 120 billion in ILS capital projected at the start of 2026. The segment's strong performance over the past three years has led to robust organic capital generation, leaving the reinsurance market with ample capacity to either return to shareholders or deploy writing reinsurance business in 2026 and beyond. While the resulting balance sheet strength is favorable from a credit perspective, AM Best recognizes that an abundance of capital could lead to further pricing erosion. So far, many reinsurers have balanced strategic capital management activities between surgical underwriting and moderate capital return options. Moreover, potential catalysts for a reversal in downward pricing trends are difficult to foresee barring the aforementioned outsized catastrophe activity.

Notably, the recent hard market cycle did not attract a surge of new reinsurance company formations. This represents a marked departure from prior hard market cycles, enabling established players to emphasize sustainable profitability over aggressive market share expansion. The very strong performance of the insurance linked securities (ILS) space could attract more investor interest, which could further pressure pricing in property catastrophe reinsurance, particularly in more remote layers.

Investment Tailwinds from Higher Rates Persist

Non-life reinsurers have benefited from elevated reinvestment yields since 2022, although central banks have begun an easing cycle. Yields on short-to-intermediate duration assets remain comfortably above prior period averages, allowing investment income to rise as older, lower-yielding securities mature and funds are still being reinvested at enhanced rates.

Although interest rates are expected to gradually decline, most non-life fixed income portfolios are positioned with a duration of three to five years. This should support enhanced investment returns for the medium term as enhanced yields will be slower to roll out of fixed income portfolios over the next three to five years.

Despite the modest decline in interest rates, AM Best expects the currently elevated cost of capital for reinsurers to endure. This dynamic is in part driven by heightened awareness of the inherent volatility of property catastrophe risk that has persisted since 2017, when the industry suffered significant hurricane losses in the southeastern US. It also reflects concerns about inadequate casualty pricing and the resulting potential for reserve volatility. While reinsurers' higher cost of capital will challenge the industry's ability to generate returns sufficient to satisfy investors, it should also continue to reinforce underwriting discipline and mitigate market share growth objectives.

Casualty Headwinds Remain

Certain classes of casualty business present significant challenges, particularly in the US, where tort

reform remains uneven and the impact is uncertain and likely to be lagging. Significant litigation financing available to the plaintiffs' bar continues to encourage nuclear verdicts that provide fuel to support social inflation. Several reinsurers strengthened casualty loss reserves in 2024 and 2025, highlighting the segment's ongoing exposure to adverse legal and claims. AM Best expects this trend to continue into 2026. In some cases, unfavorable loss reserve development from long-tail lines has been partially or entirely offset by favorable development from property, specialty, and workers' compensation reserve releases, although the buffer derived from potential excess reserve positions in other lines may be diminishing.

In response to these challenges, the industry continues to raise rates and has selectively reduced capacity allocations to higher-volatility segments of casualty lines such as commercial automobile, general liability, and excess liability. Whether these underwriting actions will be sufficient remains unresolved, as the risks associated with systemic litigation abuse and resulting inflationary pressures persist, which may constrain the pace of growth in casualty reinsurance portfolios.

The reinsurance pricing cycle is clearly past the peak of a protracted hard property reinsurance market. Operating results likely will experience moderate pressure by continuing property rate reductions, coupled with the complex and challenging operating environment in the US casualty space. Overall market conditions nevertheless should support underwriting profitability and solid overall operating performance in 2026.

Assuming catastrophe experience remains within modeled expectations, AM Best expects the segment to generate returns sufficient to at least cover its cost of capital, supported by robust investment income and profitable underwriting performance sustained by continuing careful risk selection and portfolio allocation within the context of an increasingly challenging pricing environment. The Stable outlook reflects the market's structural improvement in recent years, and its ability to balance profitability with stability in an ever more complex risk environment.

GUIDE TO BEST’S 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. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best’s Market Segment Outlook can be Positive, Negative, or Stable.

Best’s Market Segment Outlook

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