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Market Segment Outlook: Global Reinsurance

Reinsurance pricing is softening at an accelerating pace in property lines, but overall market conditions support underwriting profitability and solid overall operating performance in 2026

AM Best has revised its outlook for the global 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:

- Reinsurers' risk-adjusted capital positions remain robust, bolstered by retained earnings and prudent capital deployment.
- Although competitive conditions have increased in property catastrophe covers, reinsurers remain disciplined with terms and conditions and attachment points largely intact. Property exposures are still being priced at levels that suggest technical adequacy on average.
- Elevated interest rates continue to amplify earnings, complementing underwriting results.
- Limited new market entrants help preserve rate integrity and prevent new capacity from eroding underwriting margins.

Despite Softening In Property CAT, Market Discipline Persists

AM Best's revision of its outlook to Stable from Positive reflects increasing pressure on property pricing, which may challenge the segment's ability to sustain the very strong operating performance that the sector has achieved for the past three calendar years. The 2025 calendar year represented the sixth consecutive year of global insured catastrophe losses exceeding USD 100 billion. Aside from the California wildfires in the first quarter, however, the profile of individual catastrophe loss events was not of a sufficient magnitude to impact reinsurer results to a meaningful extent. This is partially attributed to higher attachment points and strategic portfolio rebalancing that has occurred over the past three years, but it also reflects the absence of higher magnitude individual events during 2025. As a result, the reinsurance segment's operating performance for 2025 is expected to generate returns that exceed its cost of capital for a third consecutive year.

The sustained period of strong results has led to robust capital generation that has reinsurers searching for opportunities to deploy capacity. Reinsurance capacity is projected to enter 2026 at record levels: approximately USD 540 billion in traditional dedicated reinsurance capital and

Analytical Contacts:
Greg Dickerson, Oldwick
+1 (908) 882-1737
Gregory.Dickerson@ambest.com

Dan Hofmeister, Oldwick
+1 (908) 872-0340
Dan.Hofmeister@ambest.com

Contributors:
Mike Lagomarsino, Oldwick
Steve Chirico, Oldwick

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USD 120 billion in ILS capital, bolstered by a third consecutive year of robust earnings. As a result, competitive pressures have increased. The January 1, 2026, renewal period saw property reinsurance rates fall between 10% and 20%, with the largest decreases observed on non-loss-impacted accounts. These declines brought 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. Unlike previous hard markets, however, this cycle did not spur a wave of new entrants, facilitating a shift toward more measured capital stewardship. The very strong performance of the insurance linked securities (ILS) space could attract more third-party capital, which could further pressure pricing in property catastrophe reinsurance, particularly in more remote layers.

Notably, the significant improvements in terms and conditions that reset following the 2023 renewals are proving durable. AM Best has not observed significantly lower retentions on reinsurance programs. 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. Aggregate/frequency products have re-emerged more plentifully than last year but have not returned broadly to pre-hard-market structures. Deployment remains highly selective and analytics-driven.

Higher Interest Rates Continue to Earn Through

Reinsurers are still benefiting from elevated reinvestment yields, even as central banks begin an easing cycle. Current yields remain above those of longer-dated bonds now maturing from legacy portfolios, allowing reinsurers to steadily lift investment income while the higher cost of capital continues to reinforce underwriting discipline.

Inflation trends, monetary policy shifts, and broader geopolitical uncertainty leave the future path of interest rates unclear. Still, with most non-life portfolios concentrated in the three- to five-year duration range, reinsurers are positioned to earn relatively elevated levels of interest income for several more years, providing a durable tailwind even if headline rates begin to drift lower.

Life Reinsurance: A Diversifying Pillar

Life reinsurance continues to provide stability and diversification against the inherent volatility of P/C portfolios. Margins typically between 5% and 10% help smooth earnings, while the demand for longevity and mortality protection remains strong.

Recent experience has included some higher-than-expected mortality on back books, but this has been offset by higher quality new business and favorable interest rate conditions. Post-COVID mortality trends are expected to normalize, supporting long-term profitability.

Notably, several reinsurers conducted assumption reviews under IFRS 17, leading to adjustments in Contractual Service Margins. While these changes introduced short-term volatility, they reflect prudent alignment with updated experience rather than structural weakness. Overall, life reinsurance remains a core stabilizer in the global reinsurance model.

Casualty Challenges Persist

While property performance was buoyed by disciplined underwriting and benign catastrophe activity in the second half of 2025, some casualty reinsurance lines of business continue to present challenges. Unpredictable jury verdicts are expected to continue to fuel social inflation in the US, where tort reform remains uneven and the impact is uncertain and likely to be lagging. Significant litigation financing remains available to the plaintiffs' bar and is expected to continue to drive higher loss costs, resulting in uncertainty of reserve adequacy.

Several reinsurers strengthened casualty reserves in 2024 and 2025 and AM Best expects this trend to continue in 2026. In some cases, unfavorable loss reserve development in 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.

Capacity limits have been reduced and rate hikes continue to be observed in the most volatile lines, such as commercial automobile, general liability, and excess liability, but systemic risks nevertheless remain unresolved. Whether the meaningful pricing gains seen for the past several years are keeping pace with loss cost trends is questionable. Casualty therefore remains a fragile area of opportunity, balancing investor appetite for diversification against mounting volatility.

Looking ahead, while the reinsurance pricing cycle is clearly softening in property lines, overall market conditions support underwriting profitability and solid overall operating performance in 2026. Reinsurers nevertheless face a complex and challenging operating environment, particularly in the US casualty space. 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 allocations 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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We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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BEST'S MARKET SEGMENT REPORT

A.M. Best Company Inc.
Oldwick, NJ
CHAIRMAN, PRESIDENT & CEO **Arthur Snyder III**
SENIOR VICE PRESIDENT & TREASURER **Cynthia Young**
SENIOR VICE PRESIDENT **Lee McDonald**

A.M. Best Rating Services Inc.
Oldwick, NJ
PRESIDENT **James Gillard**
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SENIOR MANAGING DIRECTOR & CRO **Kenneth Johnson**
SENIOR MANAGING DIRECTOR & CCO **Edward H. Easop**

AMERICAS

WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)

LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 8th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC

HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
8 Cross Street, #21-03 Manulife Tower
Singapore 048424
Phone: +65 6303 5000

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