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Market Segment Outlook: Global Reinsurance

The outlook for the segment remains at Positive, owing to strong underwriting profit margins, stable property rates and terms, and solid capitalization

AM Best is maintaining its outlook for the global reinsurance segment at Positive, driven primarily by the following factors:

- Underwriting profit margins remain robust, despite second half 2024 losses from Hurricanes Milton and Helene. Full year 2024 is anticipated to be another solid year for the reinsurance industry.
- Property rates and terms have been relatively stable and are unlikely to soften over the near term, owing to hurricane activity in 2024.
- The segment remains well capitalized, with no new players expected to disrupt current market discipline. Consolidations and flights to quality are more likely.
- Demand for coverage remains strong, and possibly even growing, due to heightened natural catastrophe loss activity and general economic and political uncertainty.
- Higher interest rate yields are beginning to earn out, increasing investment income and bolstering total returns.
- Concerns about adverse reserve development in US casualty reserves have become a prominent discussion point for 2025 renewals, with continued adverse development causing many reinsurers to re-evaluate their positions.
- The global life/annuity and health reinsurance segments remain well capitalized and positioned for robust growth.

Technical Margins Remain Resilient Despite More Severe CAT Losses

Reinsurers' underwriting margins have improved steadily since 2021, with substantial improvement to rates and terms following the market dislocation in 2023. In 2023, the global reinsurance segment generated one of its best years in recent history, with several large reinsurers reporting combined ratios below 90.0 and returns on equity exceeding 20%. Much of the improvement came by way of improved property reinsurance results, aided by higher attachment points, which limited frequency of losses. Through the first nine months of 2024, global reinsurers continue to benefit from improved underwriting margins. AM Best's large European reinsurer and US & Bermuda reinsurer composites reported first-half 2024 combined ratios of 82.3 (IFRS 17) and 85.8 (GAAP). However, some minor deterioration is likely as a result of Hurricanes Helene and Milton in the second half of the year, although full-year results are still expected to be generally favorable.

The US 2024 hurricane season was forecast to be an active one and has been thus far. Both the frequency and magnitude of hurricane events have been above average. However, the market has been fortunate to some extent, as many of the events' paths altered right before landfall, redirecting them to less populated areas. Additionally, much of the loss due to Hurricane Helene were related to flood and storm surge, which is typically not covered by commercial insurers. Nevertheless, reinsurers expect to bear some losses from both Helene and Milton. We expect the

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two will have an impact on third- and fourth-quarter earnings, but reinsurers should generally still report profitable full-year results for 2024.

The hurricane losses in the third and fourth quarter are unlikely to result in further hardening in the reinsurance market. Although reinsurers will participate in these losses, they are not out of the scope of what reinsurers are pricing for. Reinsurers expect they will need to occasionally fund losses for traditional CAT events such as hurricanes, if they are able to avoid losses related to secondary perils that are not priced within the coverage. These hurricanes should ease some of the tensions that have built up in recent years among cedents and reinsurers about the inequality of loss assumptions following a rise in more frequent and less severe events. Although pricing is not expected to increase, we do believe that reinsurers will be able to avoid any softening in property reinsurance rates for at least the next year or two. With property reinsurance expected to remain relatively stable in 2025, non-life reinsurers have diverted much of their focus to casualty renewals.

Casualty Business in the Cross Hairs

AM Best's positive outlook for the global reinsurance segment has been driven largely by the tailwind in property reinsurance, with the only major headwind being some uncertainty about casualty business—specifically, US casualty social inflation trends. Despite generally strong operating results in 2023, several reinsurers reported adverse casualty reserve development at year-end. This development was driven by accident years 2019 and prior, with the indication being that accident year 2020 showed significant improvement as a result of market shifts in underwriting that year. Additionally, much of the adverse development in casualty was offset by redundant reserving in property lines.

As Monte Carlo concluded in 2024, casualty lines were a point of emphasis for the upcoming renewals. Many reinsurers have indicated diminished appetite in various general liability and auto lines. Concerns about social inflation trends in US casualty, and to some degree even globally, continue to rise. Reinsurers will likely become more selective with their casualty books, which may result in more hardening.

The issue with casualty is that changes have a slower impact than they do in shorter-tailed lines such as property. Through the first nine months of 2024, a few large reinsurers had already reported substantial amounts of prior year development in their casualty books. Others have publicly announced increases in their loss picks in casualty as well, pointing to an overall deterioration in casualty underwriting margins. The most concerning aspect of these actions is that development has now extended into years such as 2020 and 2021. Additionally, we have witnessed historic material reserve actions in line with annual reviews, so there remains further risk of material development in the market for 2024. This will likely cause some reinsurers to re-evaluate their casualty positions during the January renewal cycle and could constrict capacity for primary companies.

Life Re Is Steady

Life insurance remains a good source of diversification for the large global reinsurers. The global L/A and health reinsurance segments continue to remain well capitalized and positioned for robust growth. Claims from elevated mortality impacts have been manageable, but pinpointing direct causes and future directions has been difficult, although claims have recently leveled off. In the meantime, reinsurers continue to evaluate underwriting practices, including premium rate increases to help mitigate the impact of higher claims. Reinsurers are also looking at emerging trends such as artificial intelligence and digitization to see what kind of role they will play in the future of the industry.

Higher Rates Earn Through

One of the motivating factors for the initial shift to the Positive outlook for global reinsurance was the sustained higher interest rate environment. Not only has the higher cost of capital translated into stricter underwriting discipline, but as new money has been invested in higher interest rate fixed-income instruments, reinsurers have gradually improved their investment income streams. Although rates have declined, they remain higher than the rates on most of the older maturing bond issuances in reinsurers' portfolios. Some reinsurers lengthened durations as rates rose, although non-life portfolio durations generally remain within three to five years. With rising geopolitical tensions, the recent US elections, and general economic uncertainty, future interest rate trends are far from clear. However, reinsurers will collect relatively higher levels of dividend and interest income for at least the next three to five years.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

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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

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