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Market Segment Outlook: US Homeowners Insurance

The outlook for the US homeowners segment has been revised to Stable from Negative owing to enhanced catastrophe risk management practices amid improved property reinsurance market dynamics

AM Best's outlook for the US homeowners segment has been revised to Stable from Negative, now in line with the US personal lines outlook. The revised outlook reflects the following factors:

- Solid risk-adjusted capitalization with sufficient liquidity.
- Rate adequacy that continues to improve as carriers pursue rate increases along with enhanced pricing sophistication.
- Coverage modifications, including the ongoing trend of higher deductibles, refined sub-limits, and aggregate exposure mitigation, driving improved results.
- Reinsurance market stabilization and modest price softening.
- Continued technology adoption.
- Improved catastrophe risk management practices, reflecting refined risk appetites and underwriting guidelines.

Factors counterbalancing these positives include the following:

- While improved, performance continues to be impacted by the rising effects of secondary perils and severity.
- Inflationary pressures and uncertain impact of tariffs on loss costs.
- Regulatory challenges in key states and market consolidations.

The US homeowners market improved its resilience amid elevated catastrophe losses reported throughout 2025. Premium growth remains robust, albeit the pace has slowed compared to the prior year, driven by rate activity and expanded coverage demands. Reinsurance market conditions continue to play a pivotal role, reflecting moderate softening of property rates, while terms and conditions remained consistent. The demand for coverage remains strong due to heightened weather loss activity and general economic and political uncertainty.

Risk Capitalization Remains Solid but Cushion for Some Carriers has Eroded

Better performers within the space maintained solid risk-adjusted capitalization with sufficient liquidity. However, the capital cushion has eroded for some carriers in high-risk areas due to material operating losses driven by severe events, most recently from the January 2025 California wildfires and severe tornado outbreaks across the country in the first half of the year. From a reserve perspective, one-year development of homeowners losses has been inconsistent, with unfavorable one-year development reported in 2021 through 2023 as inflation took hold, before improving to favorable development on a one-year basis in 2024. Despite this position, reserve uncertainty persists due to the impact of inflation on loss costs and potential changes due to tariffs, but not to a large extent.

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Premium growth remained robust, albeit decelerating from the prior year period. Top carriers continued to pursue rate to achieve and maintain adequate pricing, given inflationary pressures and macroeconomic influences. Material rate increases combined with increased inflation guard factors were the key drivers in the segment's premium growth, with high-risk states facing larger increases due to catastrophe exposure. Notably, with the level of inflation easing, carriers are starting to decrease inflation guard factors.

Enhanced pricing sophistication and refined underwriting practices have become the norm across the segment, benefiting from more precise data analytics and advanced modeling to facilitate better risk selection. The better performers have been more effective at leveraging technology to strengthen their risk selection process, as well as manage and mitigate losses. AI and machine learning models have been used to analyze data for pricing accuracy, underwriting, and cost reduction. Satellite and aerial imagery provide real-time data for insurers to assess property risks, identify roof damage, and evaluate claims more efficiently. Smart devices in homes have proven effective in monitoring conditions such as leaks and smoke to generate data for usage-based premiums and discounts. Drones, remote sensors, and mobile apps have been used for policy management and tailored coverage based on Big Data. Generative AI adoption has been accelerating. Focus areas include claims, customer interaction and product development. These technologies support re-underwriting in CAT-prone states, but data privacy and integration challenges persist.

The higher interest rate environment improved investment income and bolstered total returns for most carriers. Higher levels of investment income augmented with the segment's increased focus on rate adequacy and underwriting discipline have been effective in mitigating the volatility from elevated frequency and severity of catastrophe losses and inflationary pressures.

Reinsurance Landscape Improves

Moderate softening in property catastrophe rates has been observed and is expected in prospective renewals. Lower rates enable primary insurers to moderate premium increases and expand coverage availability. January 2026 renewals are expected to see further stabilization or minor price shifts. However, less comparative relief is expected for primary carriers operating in catastrophe-prone states. Overall, the improving reinsurance dynamics in 2025 helped alleviate some of the pressures in the homeowners segment, fostering resilience amid ongoing climate volatility. Nevertheless, the segment remains inherently exposed to the effects of weather-related operating volatility.

Severe Natural Catastrophes, Secondary Perils Remain Prevalent

The third quarter of 2025 provided a notable respite for the segment, being exceptionally quiet, specifically as it relates to land-falling hurricane activity. This relief followed a harsh first half of the year dominated by the January 2025 California wildfires and severe tornado outbreaks through the summer. Other noteworthy events included severe floods in Central Texas and Milwaukee. Profitability for the segment will likely benefit should storm activity remain benign throughout the remainder of 2025.

Inflation Concerns Remain; Regulatory Uncertainties Could Be a Toss-Up

Insurers continue to grapple with higher homebuilding and construction costs. The uncertainty surrounding tariffs heightens the potential for increased construction and repair costs, ultimately leading to elevated loss costs. Notably, no meaningful impact from tariffs has been reported. Given continued volatility and lingering market pressures, there has been greater interest in merger and acquisition activity, particularly regarding those companies that were materially distressed. As carriers evaluate their risk profile, the opportunity for ongoing consolidation remains a key consideration for segment participants. Consolidation can provide both opportunities and challenges. While it can lead to efficiencies, enhance product offerings, and improve services, market concentration concerns could develop from a regulatory perspective. The homeowners segment remains highly concentrated, with the top ten groups holding slightly more than 62% of direct premiums written. This reflects stability among the major players, with minimal shifts noted in 2025, as carriers remain focused on organic growth and underwriting refinements. Regulatory oversight plays a crucial role to ensure the effects of consolidation do not infringe upon consumer protection and market integrity.

The influence of state regulators on the US homeowners market can vary significantly due to differences in regulations, market conditions, and risk factors. Specific requirements pertaining to licensing, rate regulation, policy standards, consumer protection laws, claims handling, and market conduct illustrate how regulators can tailor their approaches to unique needs and risks within their jurisdictions. States like California and Florida have robust regulations tailored to specific risks. Tort reform in Florida has helped spur the depopulation of Florida's Citizens Property Insurance, the state-backed insurer of last resort, transferring polices to private carriers. This has reduced Citizens' dominance, helped stabilize the market, and lowered premiums despite ongoing weather-related challenges. Other states such as Massachusetts and Illinois emphasize consumer education and transparency to ensure that policyholders understand their rights and coverage. Texas operates under a more deregulated approach, allowing insurers to set rates without prior approval, but rates must be filed with the state. This approach is intended to foster competition within the market.

Overall, the US homeowners segment continues to show signs of stabilization owing to solid (albeit moderating) premium growth, as well as refined underwriting practices amid improved property reinsurance market dynamics. However, carriers continue to face market challenges, including elevated frequency and severity of extreme weather events (specifically secondary perils) and inflationary pressures. Technology advancements will continue to transform the market landscape while regulatory changes remain a key consideration.

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

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