Reinsurance Renewals For January 2025 Show Ample Capacity Amid Elevated Catastrophes And Adverse Casualty Trends

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Key Takeaways

- Bolstered capital from strong earnings in 2024 led to ample capacity and healthy competition from reinsurers during January 2025 renewals, resulting in downward pressure on pricing across property and property catastrophe lines.
- Casualty reinsurance renewals were also orderly with abundant capacity, despite reinsurers' tough talk about pricing heading into 2025.
- Alternative capital remains an important source of capacity for the property catastrophe market and will likely end 2024 at an all-time high, boosted by strong catastrophe bond issuance.
- Reinsurers are expected to bear a meaningful portion of the costs related to the California wildfires, which are poised to become the largest insured wildfire event in history, with loss estimates of $20 billion-$50 billion.
- We maintain our stable view on the global reinsurance sector, which is poised to earn its cost of capital in 2024-2025.

The Jan. 1, 2025, reinsurance renewals marked a return to normalcy after challenging conditions two years ago. Back then, a dramatic increase in property and property catastrophe (short-tail lines) reinsurance pricing, driven by years of underperformance, led to a frantic and disorderly market renewal. In contrast, buoyed by two years of strong and favorable returns, reinsurers entered this year's renewals with a greater willingness to deploy capacity.

As a result, our view of the global reinsurance sector remains stable, reflecting forecast credit trends over the next 12 months, including the distribution of rating outlooks, existing sector-wide risks, and emerging risks (see: "Global Reinsurance Sector View 2025," published Jan. 29, 2025, on RatingsDirect).

Reinsurance Pricing For Short-Tail Lines Has Peaked But Is Still Near All-Time Highs

We've seen general downward pricing pressure on reinsurance renewals for property and property catastrophe lines. Expected strong operating earnings for full-year 2024 have bolstered the industry's capital position, largely driven by strong underwriting performance in short-tail lines, robust net investment income, and recovering asset values. These capital-accretive earnings are being redeployed into short-tail lines, which remain favorably priced despite the decline in renewal rates.

Attachment points (the point at which insurers start getting reimbursed by their reinsurers on a loss) have largely remained high and consistent with the step changes seen since early 2023. Instead, pricing has become the primary negotiation area for reinsurers, with some flexibility observed in terms and conditions. Short-tail lines have performed exceptionally well for reinsurers, even considering elevated natural catastrophes over the past two years. Notably, global insured natural catastrophe losses exceeded $125 billion annually in 2023 and 2024, including Hurricanes Helene and Milton, which made landfall in September and October last year. This success is attributable to the structural changes implemented in early 2023, which allowed reinsurers to assume a lower share of natural catastrophe losses driven by frequency rather than severity. Consequently, reinsurers are inclined to deploy more capacity to short-tail lines, even at reduced prices, which could continue to moderate off their 2024 peak. However, the recent California wildfires and other potential natural catastrophes before year end could also shape upcoming renewals.

Property retrocession (retro), in a similar theme, saw greater supply than demand at January renewals, with more competition from existing and new entrants leading to price decreases. Retrocessionaires recorded favorable results in 2024, given few events reached the severity levels to attach to retro covers. This led providers to approach the renewals season with additional flexibility. We expect retro pricing will continue to face pressure, like property reinsurance, benefiting buyers that have retained more exposure due to the high cost of protection. This may lead to additional demand for retro protection. According to Aon PLC, pricing pressures and competition were more dramatic in the remote layers (tail covers), where products overlapped with the catastrophe bond market.

Casualty Reinsurance Renewals Are Stable Amid Reserve Volatility Concerns

Casualty renewals remained relatively stable despite the strong push by reinsurers at last year's Monte Carlo Rendez-Vous de Septembre event. The market demonstrated ample capacity, and renewals for casualty lines were orderly, with some cedents even benefiting from more favorable risk-adjusted margins. The casualty segment has recently garnered attention due to substantial adverse loss reserve developments linked to certain U.S. lines (such as general liability, umbrella, excess casualty, professional lines, and commercial auto) from the soft underwriting years--predominately 2014-2019. In addition, we saw some recent reserve strengthening from the 2020-2024 underwriting years. Significant adverse reserve developments have been reported by major reinsurance players including Swiss Reinsurance Co. Ltd., SCOR SE, and Everest Group Ltd..

We believe unfavorable developments in casualty loss reserves remain a key risk to the reinsurance sector. As a result, we expect reinsurers' casualty reserves will need to be closely monitored amid challenges from both economic inflation, although abating, and persistent social inflationary trends (increased litigation costs and higher jury awards--particularly in the U.S.--often referred to as "social inflation"). Current renewal negotiations were tempered by the availability of capacity from reinsurers not burdened by legacy issues, which are eager to deploy capital in what they consider adequately priced casualty reinsurance lines.

A significant portion of U.S. casualty reinsurance business is written on a quota-share basis, which has benefited from favorable pricing in the underlying primary risks. The casualty market has experienced positive underlying rate movements for some time, rendering the current environment appealing to reinsurers, despite trends in softer-priced business. An increasing portion of the primary casualty business is written on a nonadmitted basis, benefiting from freedom of rate and form. Furthermore, the longer-tail nature of casualty reserves, combined with high interest rates, offers the potential for attractive investment returns, serving as an enticing additional profit driver.

Jan. 1, 2025, pricing changes

Property

Territory	Pro rata commission	Risk loss-free	Risk loss-hit	Catastrophe loss-free	Catastrophe loss-hit
U.S. - nationwide	-1% to +1%	0% to +10%	+10% to +20%	-10% to 0%	0% to +15%
Europe (large programs excl. Turkey)	-4% to 0%	-10% to 0%	0% to +10%	-15% to 0%	0% to +10%
Central & Eastern Europe	0%	0% to +5%	+5% to +20%	-2.5% to +5%	+10% to +20%
Middle East & Africa	0%	0% to +10%	+15% to +20%	-10% to 0%	+5% to +15%
Latin America & Caribbean	0%	0% to -5%	+10% to +20%	LA: -7.5% to 0% Car: 0% to +10%	N.A.

Casualty

Territory	Pro-rata commission	XL - no loss emergence	XL - with loss emergence
U.S. - general third-party liability	-1% to +1%	-5% to +5%	0% to +10%
U.S. - health care liability	-1% to 0%	0% to +6%	+5% to +25%
U.S. - professional liability	-1% to 1%	N.A.	N.A.
U.K. & Lloyds - third-party liab., & financial lines	-1% to 0%	-10% to +0%	-0% to +10%
International - motor liability	N.A.	-10% to +2.5%	+2.5% to +10%

Specialty

Sector	Pro-rata commission	Risk loss-free	Risk loss-hit	Catastrophe loss-free	Catastrophe loss-hit
Aviation	0%	-2% to -10%	N.A.	-5% to 0%	N.A.
Engineering & construction	+0.4%	-0.04	N.A.	N.A.	N.A.
Life, accident, & health	0%	0% to -10%	N.A.	N.A.	N.A.
Nonmarine retrocession	N.A.	0% to 10%	N.A.	-15% to -5%	N.A.
Political risk	0% to +1%	-5% to 0%	+10% to +15%	N.A.	N.A.

Jan. 1, 2025, pricing changes (cont.)

N.A.--Not applicable. Source: Gallagher Re.

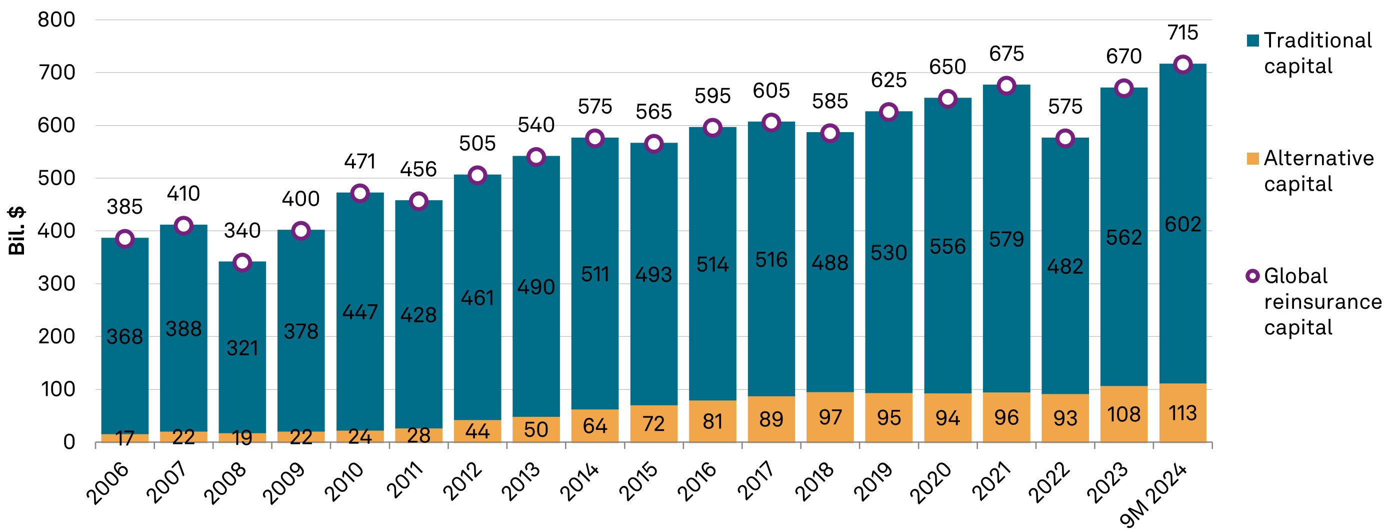
Global Reinsurance Capital Reaches New Heights

According to Aon PLC, global reinsurance capital reached an all-time high of $715 billion on Sept. 30, 2024. This represents a $45 billion (6.7%) increase from year-end 2023, driven primarily by strong retained earnings, unrealized gains on fixed-income securities, and recovering asset values benefiting from declining interest rates. In addition, new inflows of alternative capital, led by strong catastrophe bond issuance, contributed to this growth.

Despite ample traditional reinsurance capacity, alternative capital has also broken records, standing at $113 billion as of Sept. 30, 2024. It remains a key component of the property catastrophe market, complementing cedents' reinsurance protection needs. Growth has been fueled by new sponsors entering the market, with investors favoring catastrophe bonds due to their better structures, clearer coverage, and greater liquidity compared to other vehicles like collateralized reinsurance, sidecars, and industry loss warranties. We expect alternative capital will continue to reach new heights as it fills gaps left by traditional capital.

Collateralized reinsurance and sidecars also returned to growth in 2024, with investors making renewed commitments and trapped capital being released from some of these vehicles. We believe investors will continue favoring well-established and sophisticated risk managers with strong risk-modeling capabilities and a demonstrable track record.

Global reinsurance capital by source



Source: Aon PLC.

California Wildfires Hit Reinsurers' Catastrophe Budgets

Due to the substantial scale of the Los Angeles wildfires (Palisades and Eaton) industry estimates of insured losses are between $20 billion-$40 billion, with some as high as $50 billion, highlighting modeling limitations. Reinsurers will inevitably absorb a large portion of these costs, which are mostly expected to originate from personal lines (about 80%-85% of the total insured losses) rather than commercial lines (about 15%-20%).

Individually, the Palisades and Eaton fires are likely to be the largest ever wildfire insured loss events. How these losses will be shared between insurers and reinsurers is still uncertain and will be determined on a contract-by-contract basis. Key factors influencing payouts will include insurers' retentions, terms and conditions such as hours clauses, the radius size of coverage, number of distinct events considered, and ultimate assessments weighed on insurers from the California Fair Plan, which will likely be shared with reinsurers.

In addition, the ultimate insured losses will be driven by high property values. Realtors.com estimates the value of a median home within the boundaries of the Palisades fire at $3.0 million, while a typical home in the Eaton fire boundary has an estimated value of $1.3 million. Other factors will include higher replacement costs due to surging demand for labor and materials; living expenses; content values, including fine arts; and auto losses, which generally represent a minor impact of about 1%-2% of industry insured losses.

Looking Ahead

We believe reinsurers are entering 2025 from a position of capital strength and will post strong results this year, despite early losses associated with the California wildfires. These will be absorbed within industry players' annual earnings, albeit leaving less catastrophe budget for the remainder of 2025.

In our view, pricing in short-tail lines will remain firm through the remaining renewals this year. Meanwhile, reinsurers will continue to grapple with the new normal of elevated natural catastrophes and the effects of inflation on casualty loss reserves, which remain at the forefront of industry concerns.

Related Research

- Global Reinsurance Sector View 2025, Jan. 29, 2025
- Insurers Can Absorb Losses Amid Escalating Los Angeles Wildfires, Jan. 9, 2025
- Insurance Industry And Country Risk Assessment: Global Property/Casualty Reinsurance, Nov. 15, 2024
- Asia-Pacific Reinsurance Sector Update, Oct. 30, 2024
- Hurricane Milton: The Implications For Rated U.S. Insurers And Global Reinsurers, Oct. 9, 2024
- Global Reinsurers Must Maintain Discipline To Cement Strong Performance Amid Casualty Risks, Sept. 3, 2024

This report does not constitute a rating action.