FALL 2025 > > > > >

STATE OF THE MARKET

THE ALTERNATIVE VIEW

Artex

US PROPERTY AND CASUALTY COVERAGE LINES

In the final weeks of 2025, the prediction that last year's overall commercial market insurance themes would endure still holds, even in a year marked by macroeconomic uncertainty. Across most coverages, rate increases have moderated and capacity has been ample.

Insureds weren't the only ones to benefit from this outcome.

In the second quarter of this year, analysis by IHS Markit showed a combined ratio of approximately 94.2% for its universe of US property and casualty insurers. Markit noted that "The combination of below-average catastrophe (Cat) losses and superb performance in the largest business… led the US property and casualty industry to post its lowest statutory combined ratio in a second quarter in 18 years."[1]

While the commercial insurance market has never been one-size-fits-all, it is becoming increasingly segmented. Underwriters are giving more weight to an insured's size, product, industry and geography.

The reinsurance market is also experiencing a period of strength and stability. As with the primary insurance markets, natural catastrophe (NatCat) events, in particular secondary perils, continue to be an area of concern. Gallagher Re estimates that global H1 insured losses were USD84 billion, the highest for H1 since 2011. Other estimates range from USD80 billion to USD100 billion for the first half of this year.

Treaty renewals on July 1 reflected both the market's excess capacity and its focus on careful risk selection, particularly in the casualty market, where loss experience continues to deteriorate.

Both insurers and insureds should enjoy this period of relative stability. Depending on coverage line and market, as of the publication of this report, we are about 18 to 20 months into the current cycle. As anyone with long-term experience in the commercial insurance and reinsurance market will tell you, be prepared for conditions to change.

[1] "U.S. P&C Insurers Approached Peak Profitability in Stellar Q2," *Seeking Alpha*, 05 Sep 2025.

At a Glance

Property: In 2025, the US commercial property market has enjoyed steady pricing and plentiful capacity. Overall, renewals have reflected a more competitive environment, with carriers open to negotiating terms for their better risks. In particular, Cat-driven layered and shared property programs are the part of the market benefiting the most from these rate decreases. Globally, this market is considered to be more balanced than in past years.

That stability, however, doesn't mean that there aren't growing challenges, many of which stem from climate change.

Before most people even had a chance to break their New Year's resolutions, wildfires swept through the greater Los Angeles area. While these wildfire areas are noteworthy from an insured loss perspective, at an estimated USD40 billion, the timing of the wildfire events — nearly six months before the traditional start of California's wildfire season — is also cause for concern.

Severe convective storms (SCS) continue wreaking havoc, sometimes causing damage comparable to a hurricane or earthquake. An SCS series in March and May accounted for USD10.5 billion, according to a Gallagher Re report.

Late summer/early fall has traditionally been an active time for the US Atlantic hurricane season. As of October 2025, it has been quieter than usual. That said, things could quickly change, as late-season hurricanes aren't unusual. One of the most expensive hurricanes to hit the US, Hurricane Sandy, came ashore on October 30, 2012.

Casualty: The multi-year challenges that the casualty market faces haven't eased in 2025. This is particularly true in the commercial auto, general liability and umbrella/excess liability insurance lines. In keeping with the more-of-the-same theme, workers' compensation continues to be the bright spot in the casualty market.

For umbrella/excess liability, insurers are requiring detailed submissions for large coverage towers. Underwriting standards remain stringent, especially for sectors that are considered high risk, such as construction, healthcare, hospitality and manufacturing.

The impact of social inflation on claims costs is the primary driver of pricing and capacity challenges in the casualty market.

The increasing number of nuclear verdicts — jury awards above USD10 million — as well as the growing size of these verdicts, means claims severity continues to climb.

Cyber: Although cyber is neither a casualty nor a property coverage line, it overlaps with a number of property and casualty lines, creating gray areas. Companies are responding to potential artificial intelligence (AI) risks by revising cybersecurity protocols, bolstering data privacy policies and ensuring regulatory compliance.

While ransomware remains one of the top cyberthreats, the growing use of AI by cybercriminals is resulting in more sophisticated and targeted attacks. The past 12 months have seen a significant impact on digital supply chains, even for companies with robust cyber defenses. Emerging risks include cyber attacks with physical consequences, such as water damage or shutting down safety system, and quantum computing, which threatens the viability of current encryption standards.

D&O: The Directors & Officers (D&O) insurance market continues to evolve, with shifting trends in competition, capacity and underwriting strategies shaping the landscape as we move through 2025. The overall environment remains favorable for insureds, and the market is competitive when it comes to pricing. With ample capacity, insurers are still offering coverage enhancements to retain and attract new business.

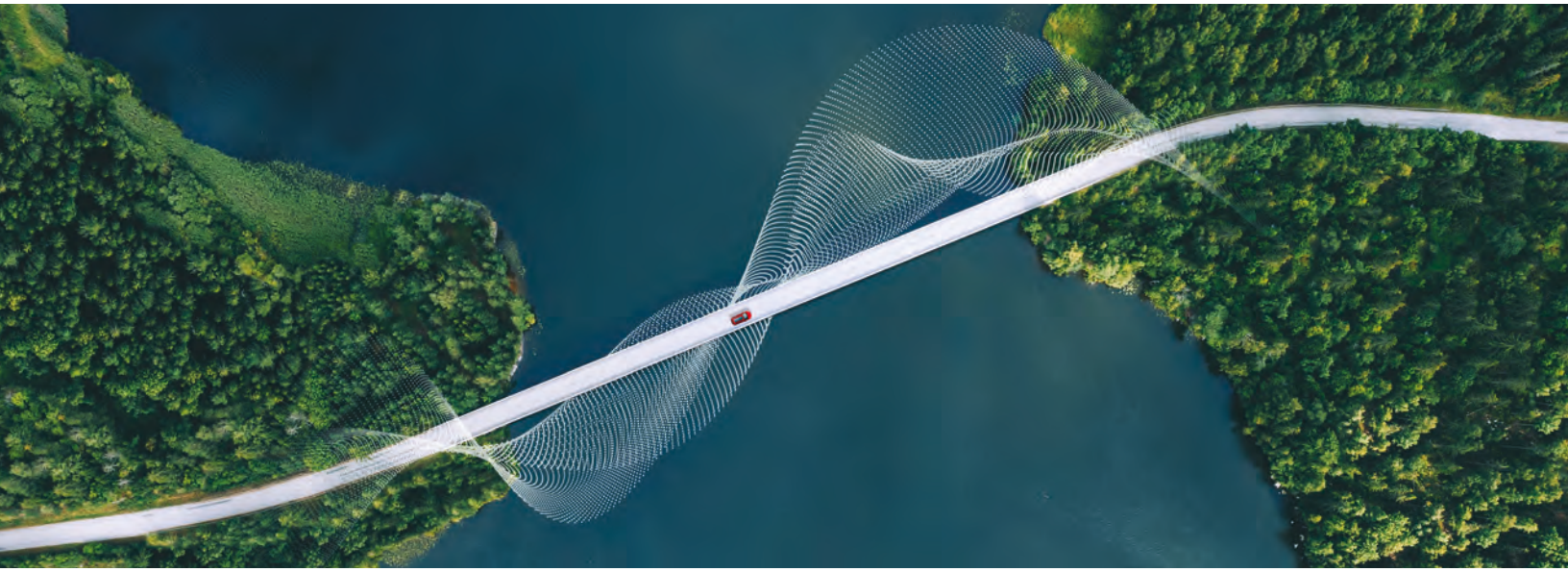
In the US, IPO activity has picked up, particularly in the second quarter, where filings reached a three-year high. As a general rule, underwriters scrutinize D&O coverage submissions from companies that are about to go public more closely than they do for more mature ones.

For corporate board members and senior leadership, AI washing — misrepresenting a company's AI capabilities — is a growing source of AI-related litigation. Data privacy and AI errors or "hallucinations," are additional areas of concern that could lead to these individuals being named in litigation.

GLOBAL REINSURANCE MARKET

At a Glance

- Global reinsurance dedicated capital stood at USD805 billion at the end of the second quarter. Strong underwriting and investment returns drove this growth.
- The balance of reinsurance supply and demand continues to favor cedants.
- According to Gallagher Re, traditional reinsurance capital is on track to increase by approximately 8% in 2025. This strong capital position serves as a buffer against volatility.
- Nearly all (92%) of H1 losses related to weather and climate change occurred in the US. The country also accounted for 13 of the 14 USD1 billion or greater insured losses through the second quarter. On the plus side, from a frequency perspective, this was the lowest number of global NatCat events since 2019.
- For Florida property, the June 1 treaty renewals demonstrated the positive impact effective tort reform can have on the US insurance market.



For the global reinsurance market, 2025 has been all about growth, as companies seek to put excess capital to work. That focus has led to reinsurance capacity growing faster than demand for reinsurance cover. Reinsurers are using this excess capital position to increase dividend payments to shareholders as well as to initiate share buyback programs.

Even in a market that favors the buyer over the seller, reinsurers are being prudent in their risk selection. Memories of the previous soft market are helping to keep underwriters focused on pricing discipline. Reinsurers are enforcing stricter contract terms, raising attachment points and adopting a more selective underwriting strategy, particularly for casualty.

Although 2025 started with an earlier-than-usual wildfire season, reinsurers continue to view property as attractive, particularly compared to casualty. As such, many insurers were able to negotiate risk-adjusted rate reductions for property treaties. While rates have softened, they remain closely tied to loss history. Some reinsurers are once again deploying excess capacity by selectively offering aggregate property treaties.

Reinsurance capacity for casualty remains stable. For renewals, reinsurers are most interested in cedants who have a strategy to improve their performance and evidence that it is working.

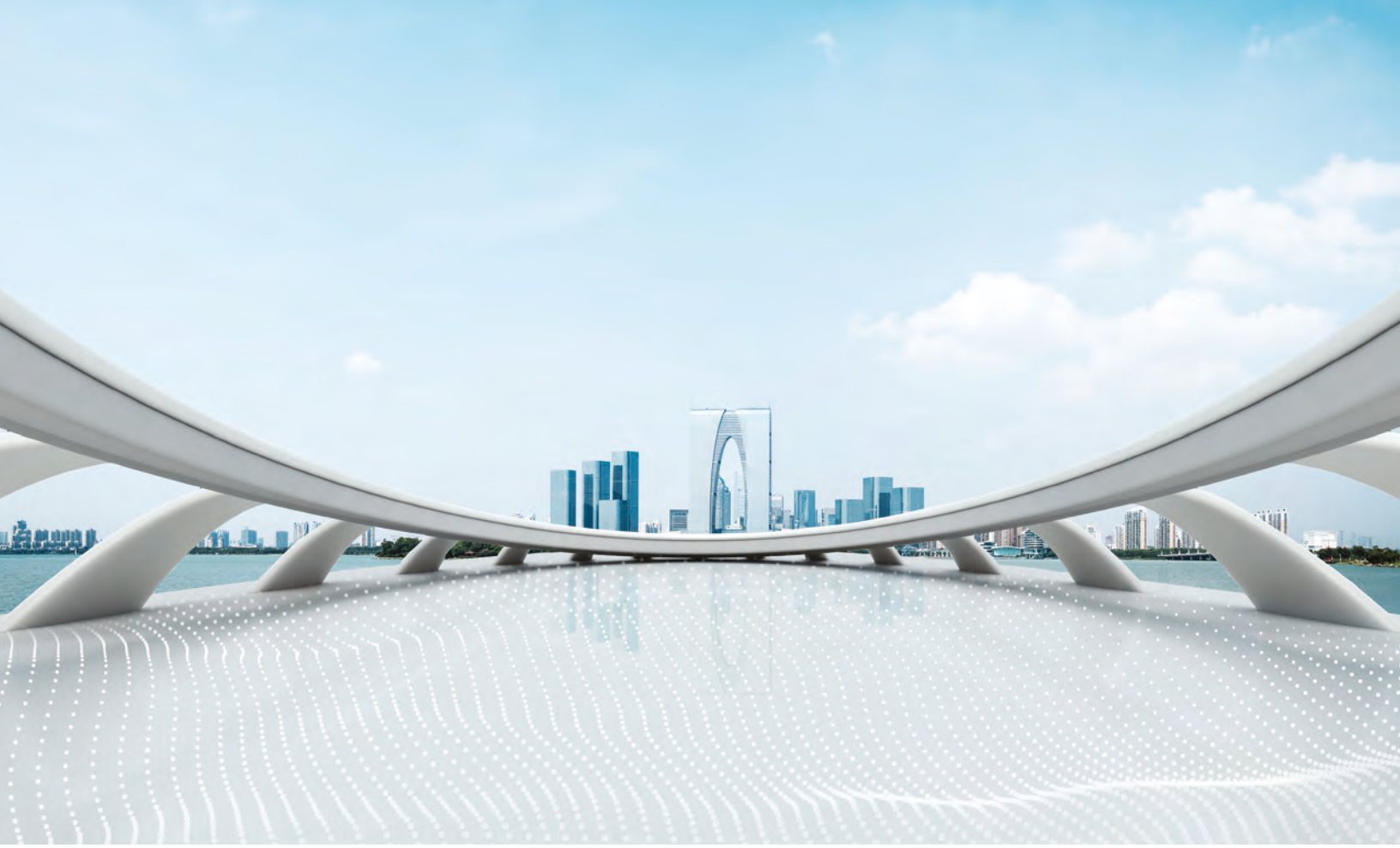
The reinsurance market's excess capacity and strong balance sheets meant that the NatCat losses from the first part of the year had little impact on the July 1 property treaty renewals.

For the Florida property market, favorable treaty renewals demonstrated the positive impact that 2023's tort reform has had on the state's property insurance market. Insurers and reinsurers viewed last year's Hurricane Milton as a real-world test of the strength of these reforms, and those results were positive.

According to Fitch Ratings, while Hurricane Melissa will trigger the USD150 million International Bank for Reconstruction and Development (IBRD) Capital-at-Risk (CAR) Jamaica 2024 parametric catastrophe (cat) bond, minimal disruption is expected to the global reinsurance market.[2] Industry-insured losses to onshore property in Jamaica are predicted to range from USD2.2 billion to USD4.2 billion, according to Verisk.[3]

[2] "Hurricane Melissa to Trigger Jamaican Cat Bond, Reinsurance Losses," *Fitch Ratings*, 31 Oct 2025.

[3] Wells, Kane. "Verisk estimates Hurricane Melissa insured losses could reach $4.2bn," *Reinsurance News*, 3 Nov 2025.



ALTERNATIVE RISK MARKET

At a Glance

- Many large corporates with sophisticated risk management strategies are moving to a captive-first strategy, elevating the role of the captive from a passive tool for hard markets and difficult-to-place risks to a proactive, strategic risk-financing vehicle regardless of the market cycle.
- The pricing and capacity stability that many commercial insurance lines are experiencing haven't slowed down captive formation in North America, EMEA or Asia-Pacific.
- The UK government announced its intentions to initiate captive-friendly reforms with the goal of having a new framework in place by mid-2027.
- Parametric solutions are being used to address traditionally uninsurable risks, such as non-damage business interruption — particularly in areas like climate-related exposures and supply chain disruptions.

The Big Picture

If you still view captives as simply an alternative to traditional insurance, it's time to update your perspective.

This year, the captive growth trend has bucked the conventional wisdom that formation flourishes during times when insureds have pricing and capacity challenges. Increasingly, captives are expanding beyond traditional coverage lines into areas such as employee benefits, D&O, tenant-waiver liability, medical stop-loss, supply chain risks and terrorism.

Broadening a captive's portfolio not only enhances its risk spread but also increases its overall volume and resilience. By diversifying the risks written into the captive by geography and class of business, parent companies can insure more without impacting capital requirements.

The Benefits Boom

Insurance is a foundational element of most employee benefits packages, so it's no surprise that companies are increasingly turning to captives to support these programs. Their inherent flexibility makes them especially well-suited for organizations seeking to offer tailored benefits that aren't readily available off the shelf or aiming to harmonize their employee benefits across multiple jurisdictions. This option is particularly attractive for large multinational organizations that have a sophisticated approach to risk management and insurance.

While the cost savings associated with Employee Benefit (EB) captives are important, for most companies, the potential opportunity to reclaim profits that would otherwise be retained by insurance companies is becoming even more attractive. Often, these companies use returned profits to create new benefits that are meaningful to their employees.

Cell and Parametric Trends

Within both the North American and EMEA markets, establishing a cell within a protected cell company (PCC) remains an attractive alternative to forming a single-parent captive, with lower barriers to entry. In most cases, the decision boils down to cell captives being a streamlined and cost-effective solution, coupled with speed of formation and lower solvency capital requirements.

Since the pandemic, there has been a heightened awareness of supply chain risk in North American, EMEA and APAC markets. Traditional insurance primarily addresses physical damage. However, that is only one of several disruption risks in an environment of geopolitical uncertainty. A parametric solution within a captive is an approach many are using to address risks such as port closures and climate-related exposure.

"Captives offer the opportunity to have greater control over the insurance program, such as the ability to both innovate and incentivize healthier employee behaviors. We helped one client develop a completely separate global wellness and wellbeing program that included a cancer-related treatment pillar and specialized screening facilities. You're creating a valuable benefit for employees that can't be purchased in the traditional market."

Michael Matthews
Commercial Director
Artex Risk Solutions, EMEA

North American Perspective

US corporations that want to establish a domestic captive have a plethora of options, as the number of states that allow captive formation has grown significantly over the past few years. Vermont, the world's largest captive domicile, is among the most active centers of captive formation, with the year-to-date captive formation of 42 licensed captives in August 2025 already higher than for the entire year of 2024.[4] Additionally, Utah, North Carolina and Delaware are home to more captives than older, better-known domiciles, such as the Isle of Man and Guernsey.

Over the years, state regulators have become increasingly comfortable with the captive structure and the concept of a company assuming their own risk. They also want to make it attractive for a company to establish a captive in the same state in which they are headquartered.

Group captives are a significant reason why the five-year average combined ratio of 88 for the AM Best-rated US captives outperformed their commercial casualty peer composite, which had a 97.0 combined ratio.[5] Healthcare, construction, and transportation are three industries that gravitate toward group captives.

While organizations are still seeking captive structures to support adequate and affordable insurance coverage and favorable terms and conditions to cover risk not otherwise available in the traditional marketplace, when it comes to single-parent captive considerations, drivers tend to lend themselves to addressing hard-to-place risks, distressed property and general liability challenges.

The Green Mountain State

After deciding to allow captive formation in 1981, Vermont quickly moved into a leadership position. Of the state's 710 currently licensed captives, 66% are single-parent captives.[6]

This hub of captive formation offers a robust network of service providers, such as accountants, actuaries and lawyers, with the needed expertise. Vermont's regulatory framework has kept pace with captives' fast-changing needs. This commitment has helped keep it competitive with offshore domiciles and, increasingly, other states.

Many of the states that have approved captive-formation legislation have been quite open in saying that they've modeled their state's framework after Vermont's. For legislators who, a few years ago, were unfamiliar with captives, there's a comfort level using a model that's proven to work.

[4] "Vermont 2025 Captive Formations Already Surpass 2024," *Captive Review*, 13 Aug 2025.

[5] "Best's Market Segment Report: Captive Insurance and Alternative Risk Entities Continue to Emerge and Excel," *AM Best*, 04 Aug 2025.

[6] "Why Vermont?" *Vermont Captive Insurance*, 30 Jun 2025.

"It's no surprise that many captives have better financial performance than their traditional insurance counterparts. Whether it's a group, single-parent or cell captive, the companies that capitalize on the captive structure come to the table with a certain buying behavior and approach to how they think about risk retention and risk transfer, loss control and active claims management. All of these behaviors result in the full utilization and success of how a captive structure can help these companies.

Group captives are especially powerful when it comes to risk mitigation for middle-market companies. There's an actual camaraderie and sharing of loss control best practices that occurs with either companies operating in the same industry in a homogenous structure or, more generally, on exposures that exist among diverse customers and types of risk. They share these risk mitigation and loss control best practices because they are vested in the other members' performance. The collective performance of the group becomes important as they share in the liabilities of the other members but also in the potential of earning underwriting profit that they see in the way of distributions."

Dawn Hiestand
Chief Underwriting Officer and Head of Captives
Artex North America

More Than Just Another Domicile

The captive story of the year is the UK government's decision to introduce legislative changes to make the UK a captive domicile of choice, focused particularly on the London market. The UK Risk Transformation Regulation of 2025 will introduce new rules for captive insurers, with a target date for implementation of mid-2027.

Many UK-based companies are already using captives domiciled in Guernsey, the Isle of Man and Bermuda. Once these reforms are finalized, firms that historically didn't feel comfortable going offshore will have a domestic onshore option.

Even though London remains the world's insurance capital, the success of London as a center of captive formation isn't a given. While some UK companies may decide to move their offshore captive to their domestic market, ultimately, London will need to attract new business to succeed, as has been the case with the success of similar captive legislation in France.

The appeal of streamlined operations and reduced travel requirements makes a domestic captive an attractive option for many UK companies. It also allows for easier integration into broader risk management strategies compared to offshore structures.

"For the majority of new clients, the establishment of a captive isn't just a knee-jerk reaction to what's happening in the market when things get tough; more so, it's the desire to have a long-term strategy for risk management and containing the total cost of risk. Even though it's becoming a buyer's market for many commercial insurance coverages, we're not slowing down when it comes to enquiries for new captive formations, and we are still experiencing a sustained pipeline.

That's because a softer market is a great time to establish a captive. Without the immediate need to address pricing and capacity pressures, a company can more easily focus on strategic risk management."

Paul Eaton
Chief Executive Officer
Artex Risk Solutions, EMEA

ALTERNATIVE CAPITAL MARKETS

At a Glance

- According to Artemis, insurance-linked securities (ILS) issuance surpassed USD18 billion at the end of Q3, USD1 billion more than the market's 2024 year-end record. Strong January transaction volume and a record-breaking second quarter made a difference.
- Issuance came from 95 transactions, slightly higher than the entire previous year.
- At the end of September, the outstanding ILS market was valued at USD56 billion.
- Despite high losses from the California wildfires in Q1, the market's interest in assuming wildfire risk has increased.
- The use of sidecars continues to grow for both property and casualty risks. Casualty now accounts for approximately 8% of the overall sidecar market, with property accounting for the remainder.
- As the secondary Cat Bond market begins to price in a lighter-than-anticipated hurricane season, investors could have a third consecutive year of double-digit returns.

The Big Picture

With 2025 catastrophe bond and related ILS issuance already surpassing last year's record, this could finally be the year of the USD20 billion market.

The upward trajectory of both ILS supply and demand has propelled this market to new highs in 2025. With mid-year Cat Bond and related ILS issuance surpassing last year's record, the market is on track to achieve its USD20 billion a year milestone. Both new and returning sponsors are driving issuance activity.

Even if the market misses the USD20 billion mark, it will still be a year of records. In May, the largest Cat Bond deal on record was issued on behalf of Florida Citizens. The USD1.525 billion issuance for Florida named storms was upsized after a strong reception from investors. This transaction was a contributing factor to Q2 2025's record-breaking USD10.5 billion in new Cat Bond issuance.

The losses from the January California wildfires have had minimal impact on the market, and investors have continued to show appetite for the peril.[7] With the bulk of losses retained within traditional reinsurance markets, Sidecars and private transactions were the capital market-backed vehicles hit hardest by the California wildfire losses.

Surging Capital Market Interest

While more traditional asset classes have had a volatile year, the ILS market continues to deliver attractive yields to investors while remaining uncorrelated with more traditional investment markets.

Property Cat risk continues to dominate from an investor perspective; however, casualty interest hit a tipping point in 2025, both in terms of issuance activity and investor interest. The softening commercial property insurance market is a factor in this shift, as is rising loss severity within casualty classes.

The reinsurance sidecar is the risk transformation vehicle of choice for the fast-growing investor casualty market. Its structure is better suited to the harder-to-model, long-tail nature of these risks. Most of these sidecars are structured to give investors certainty regarding getting their capital back between five and seven years.

Newer features, such as the forward exit option, which allows investors to exit their position after a predetermined time period, are one of the primary reasons these transactions are on the rise. The "tail" of the transaction is typically taken back by the sponsor of the sidecar or transferred to a run-off market on pre-agreed terms (forward exit option).

From an investor perspective, casualty offers a different type of profile than property. Typical investors are those seeking to profit from both the underwriting return and the asset management returns on the premium received throughout the transaction. In particular, private credit funds are finding casualty sidecars to be an attractive market in 2025.

Nearly three years from the issuance of the first publicly offered cyber Cat Bond, cyber remains an insurance line where the interest in the reinsurance and ILS market diverges. Although a concern for many insurers, Artex has not yet seen the demand, structure, modeling, pricing and return profile gain widespread interest from capital markets.

[7] "California Wildfires to Result in Minimal Principal Cat Bond Losses," *Fitch Ratings*, 24 Jan 2025.

London Calling

Lloyd's of London recently confirmed that its London Bridge platform, for which Artex is the insurance manager, has facilitated the entry of approximately USD2.2 billion in new capital into the market. This milestone reflects growing investor confidence and the platform's effectiveness in enabling efficient risk transfer and continued potential for the future of the UK ILS regime.

The UK's Risk Transformation Regulation is expected to enhance the UK's ILS framework through regulatory changes for both ILS and insurance special purpose vehicles (ISPVs). Upcoming ISPV changes will be related to funding requirements that will lock up less capital. Current requirements require ISPVs to fully fund their aggregate maximum risk exposure at all times. Other changes that will make the UK ILS market more competitive include a grace period for certain compliance and funding requirements, as well as a faster authorization process.

"Throughout 2025, Artex has experienced a very healthy pipeline of interest in the asset class, both in new collateralized reinsurance set-ups as well as growth in existing vehicles. We have seen good growth across property Cat as well as casualty lines.

The reinsurance sector has shown good underwriting discipline and discernment in recent years. This has kept the returns in a territory that holds investor interest in the asset class. Investor confidence is in large part dependent on a disciplined and profitable reinsurance market. This year's increase in capital backing Cat Bonds and collateralized reinsurance transactions reflects that confidence."

Kathleen Faries
Chief Executive Officer
Artex Capital Solutions

THE **ART** OF **RISK**

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse (re)insurance and ILS solutions, our global team operates at the intersection of art and science — where creative thinking meets expertise and superior outcomes are made. That's how we're able to fully understand our clients' needs and deliver the most comprehensive solutions available.

Established in more than 35 domiciles internationally, we're here to help you make empowered decisions with confidence, reduce your total cost of risk, and improve your return on capital. At Artex, we believe in finding you a better way.

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