S&P Global Ratings

S&P Global Ratings' 40th Annual Insurance Conference

Three Key Trends We're Watching

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This report does not constitute a rating action

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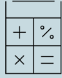
Key Takeaways

While insured natural catastrophe (nat cat) losses have been rising, we believe the property/casualty (P/C) sector can largely mitigate the risk.

We expect reinsurers will continue to use third-party capital to help manage their nat cat exposure, especially in peak zones, helping them to meet strong demand for coverage.



We believe life insurers' shift toward retirement products, including a recent surge in annuities sales, will likely limit any ratings upside.

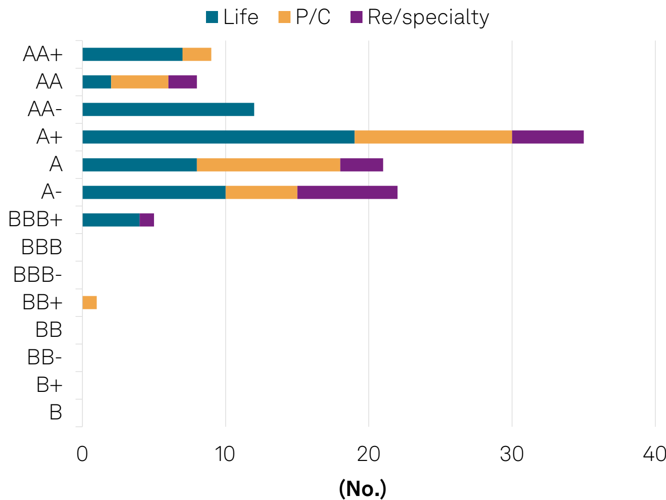
For more information and to register for our 40th Annual Insurance Conference, please **click here**

The U.S. insurance industry has evolved in the 40 years since S&P Global Ratings' inaugural insurance conference: The P/C sector's net premium written has grown roughly 5x, life insurers' assets have grown around 9x, and while the number of U.S. insurers has consolidated, the number that we rate has more than doubled. Nevertheless, the industry remains highly rated and largely stable.

Chart 1

The median rating for the U.S. insurance sector is 'A+'

U.S. insurance ratings dispersion

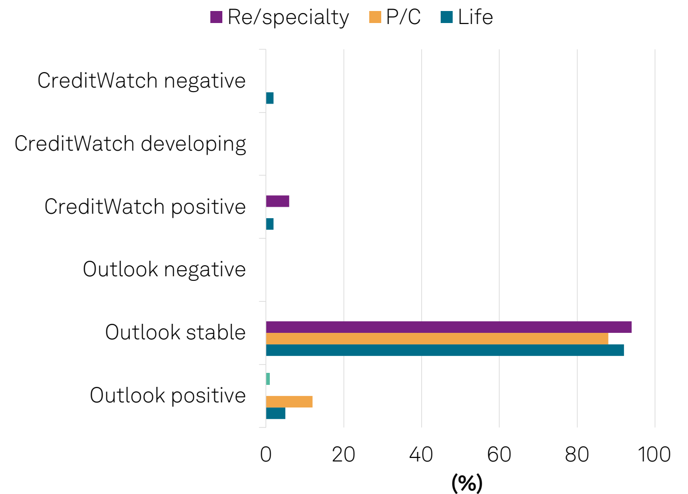


Data as of May 21, 2024. Source: S&P Global Ratings.

Chart 2

The vast majority of rated insurers have stable outlooks

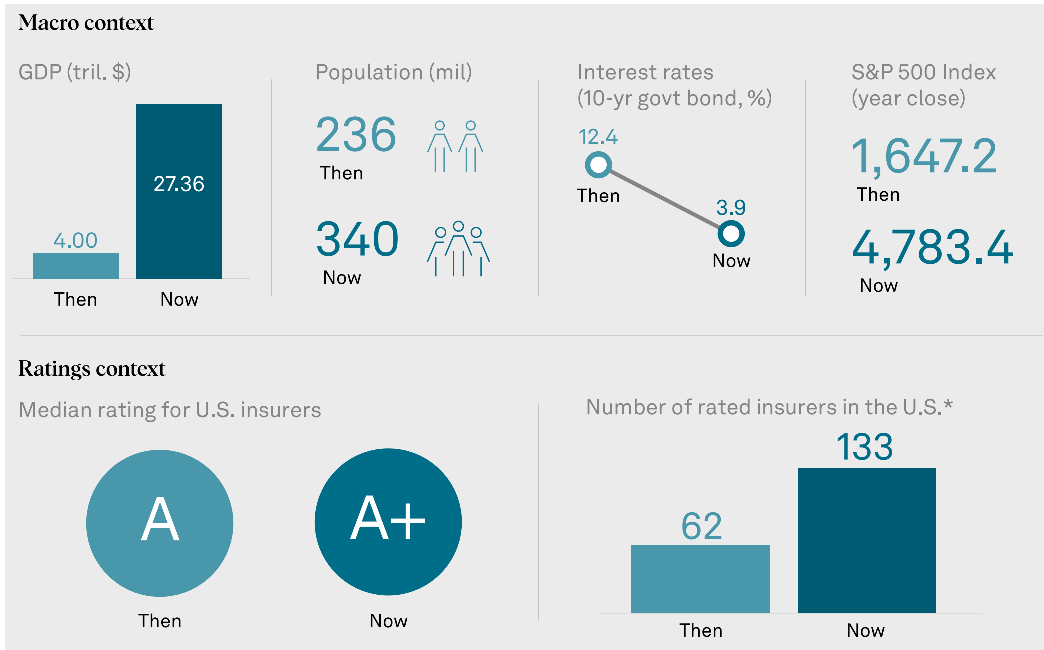
U.S. insurance outlook distribution



Data as of May 21, 2024. Source: S&P Global Ratings.

Chart 3

Then and now



*Represents rated individual companies and groups, excludes public information ratings. Sources: S&P Global Ratings, World Bank, and Federal Reserve Economic Data.

Here, we go in-depth on one trend per subsector that we believe is changing the industry: the consequences of rising nat cat risk for P/C insurers, the growing use of third-party capital in reinsurance--particularly for managing nat cat exposure, and life insurers' increasing market risk as they shift toward retirement products.

P/C: Nat Cat Losses Could Lead To Higher Rates, Less Protection For Homeowners

Risk level	Moderate	Elevated	High	Very high
Forward 12-month trend	Improving	Unchanged	Monitoring	

Top risks and trends to watch for P/C insurers	Risk level	Forward 12-month trend
Extreme weather volatility threatening property insurers	Very high	Unchanged
Regulatory hurdles affecting personal line insurers' ability to achieve rate adequacy	Elevated	Improving
Higher-for-longer interest rates affecting investment assets	Moderate	Improving
Heightened cyberattacks disrupting business operations or exposing insurers to outsize losses	High	Unchanged
Persistent inflationary pressure (social/economic) leading to reserve uncertainty and more expensive insurance claims	High	Unchanged
Accelerated technology transformation requiring new approaches from regulators and insurers	Elevated	Monitoring
Hard reinsurance market affecting primary insurers' transferring of risks	Elevated	Improving
Geopolitical tension threatening economic productivity	Elevated	Unchanged
Challenges in commercial real estate market leading to write-downs	Moderate	Unchanged
Rising investments in private credit and illiquid assets leading to liquidity concerns	Moderate	Monitoring

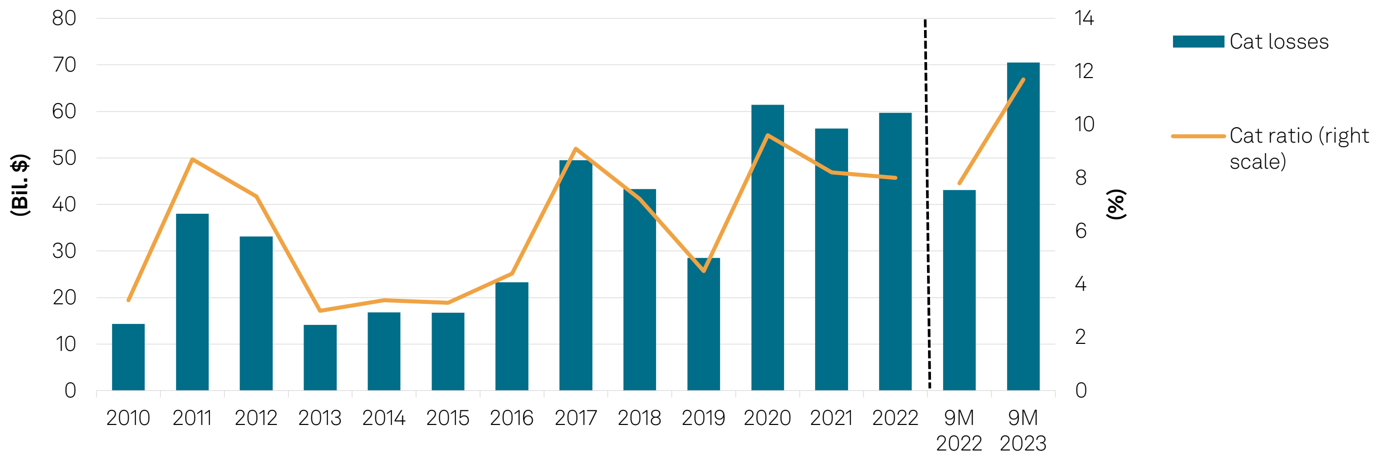
Source: S&P Global Ratings.

What's Happening

Insured catastrophe losses in the U.S. have exceeded $40 billion annually on average in the past seven years, up from $22 billion on average in 2010-2015. The increase largely owes to hurricanes and increased wildfires and severe convective storms. Insurers have responded to higher nat cat losses by substantially raising rates and taking other underwriting actions to limit their exposure to more frequent loss events.

Chart 4

U.S. P/C industry catastrophe losses



Source: ISO.

Why It Matters

In the past 18 months, reinsurers have been pulling back coverage for low layers of nat cat protection. As a result, primary insurers have retained more risk while paying more for their coverage. This is particularly true for personal lines writers, which are more exposed to property risk.

Furthermore, personal lines writers are driving our negative sector view for P/C insurance, given weakening balance sheets and deteriorating underwriting margins for personal lines (both auto and homeowners).

What Comes Next

Because most property policies renew annually, we believe P/C insurers can pivot to mitigate nat cat risk. While regulation and concentration (by product line and geography) can slow the adjustment, we expect the sector to maintain high credit quality: our median rating on the sector is currently 'A+'.

We believe P/C insurers can pivot to mitigate nat cat risk.

We expect insurance companies will charge higher rates for the homeowners' policies they write and reduce coverage in areas with more nat cat exposure--especially where regulation limits their ability to raise rates. This will result in homeowners retaining more risk and paying more for less protection.

Reinsurance: Third-Party Capital Will Continue To Grow

Risk level: Moderate | Elevated | High | Very high

Forward 12-month trend: Improving | Unchanged | Monitoring

Top risks and trends to watch for global reinsurers	Risk level	Forward 12-month trend
Elevated natural catastrophe risk influenced by climate change, urbanization, and inflation	High	Unchanged
Geopolitical tension affecting both sides of the balance sheet	High	Monitoring
Social and economic inflation risk and potential effects on claims cost and reserve adequacy	High	Unchanged
Rising cyber exposure, including concentration and aggregation risks	High	Monitoring
Cost of capital and retrocession cost	Elevated	Monitoring
Reinsurance pricing cycle	Moderate	Unchanged
Higher-for-longer interest rates affecting investments	Moderate	Improving
Exposure to private credit, illiquid assets, and commercial real estate	Moderate	Monitoring
AI and insurtech potentially disrupting the re/insurance value chain	Moderate	Monitoring
Regulations increasing cost of doing business	Moderate	Unchanged

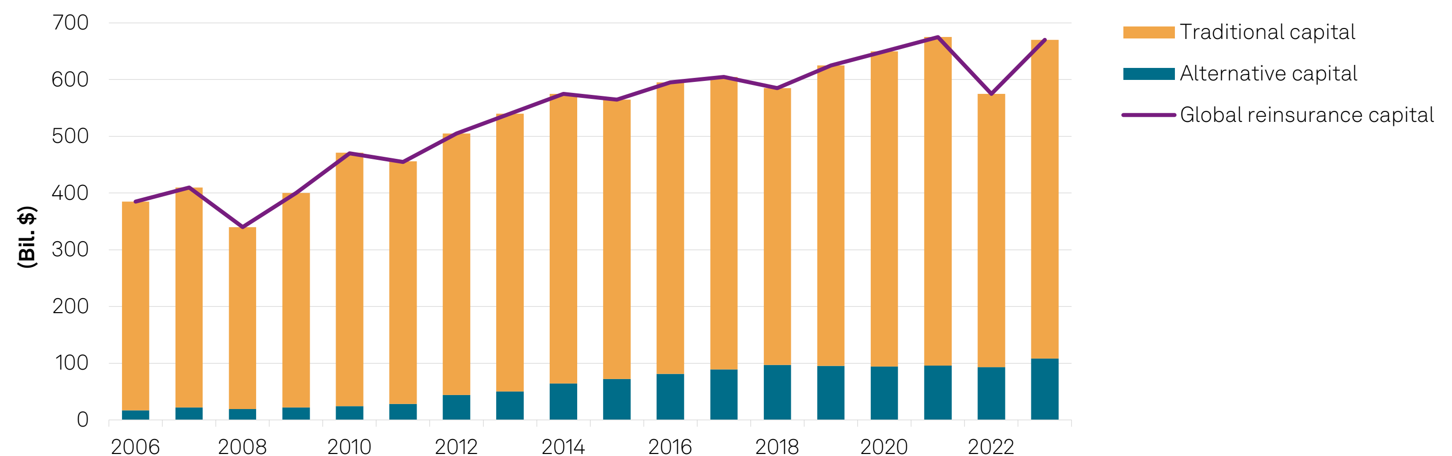
What's Happening

Higher nat cat losses have driven primary insurers to try to cede more nat cat risk to reinsurers, which have in turn raised rates and reduced capacity for coverage that protects against loss frequency. Another way reinsurers manage nat cat exposure is through the use of alternative capital, especially in peak zones (such as Florida for wind exposure).

Chart 5

Reinsurers are using more alternative capital

Global reinsurance capital (2006-2023)



Sources: Company financial statements, Aon's Reinsurance Solutions, and Aon Securities LLC.

Nat cat exposure is attractive to third-party capital providers--such as sovereign funds, private equity, and hedge funds, among others--because it's a source of portfolio diversification that isn't correlated with factors such as interest rates, and it offered promising returns while interest rates were low.

Why It Matters

As interest rates have climbed, third-party capital providers have maintained their appetite for the uncorrelated risk that nat cat offers while becoming more selective about the insurers and reinsurers they work with--especially in terms of underwriting, profitability, and enterprise risk management. We believe investors will continue to favor cat bonds over other insurance-linked securities because they have better structure, clearer coverage, and more liquidity compared with other forms of insurance-linked securities.

What Comes Next

We expect third-party capital to continue to grow and to remain an important way for reinsurers to effectively manage and reduce their exposure to catastrophe risk, helping them to meet strong demand for coverage. Moreover, the use of third-party capital has been expanding into other lines, such as cyber and mortgage insurance. Our median rating for the reinsurance sector is 'A+,' and we expect strong demand to sustain the industry's pricing momentum through the upcoming 2024 renewals.

We expect third-party capital to continue to grow and to remain an important way for reinsurers to reduce risk.

Life: Shift Toward Retirement May Limit Ratings Upside

Risk level	Moderate	Elevated	High	Very high
Forward 12-month trend	Improving	Unchanged	Monitoring	

Top risks and trends to watch for life insurers	Risk level	Forward 12-month trend
Effect of interest rates on spread earnings and top-line sales	Moderate	Unchanged
Geopolitical and macroeconomic tensions threatening economic recovery	Elevated	Unchanged
Persistent inflation weighing on expenses and affecting profitability	Moderate	Unchanged
Higher credit defaults tied to risk of recession	Moderate	Unchanged
Rising investments in private credit and illiquid assets leading to liquidity concerns	Moderate	Monitoring
Challenges in commercial real estate market and commercial mortgage loan portfolios leading to write-downs	Moderate	Monitoring
Counterparty risk from offshore reinsurance solutions and sidecar activity	Moderate	Monitoring
Regulatory hurdles related to capital standards, offshoring, selling practices, or new standards	High	Monitoring
Heightened cyber attacks disrupting business operations or exposing insurers to outsize losses	High	Unchanged
Accelerated technology transformation requiring new approaches from insurers and regulators	Elevated	Monitoring

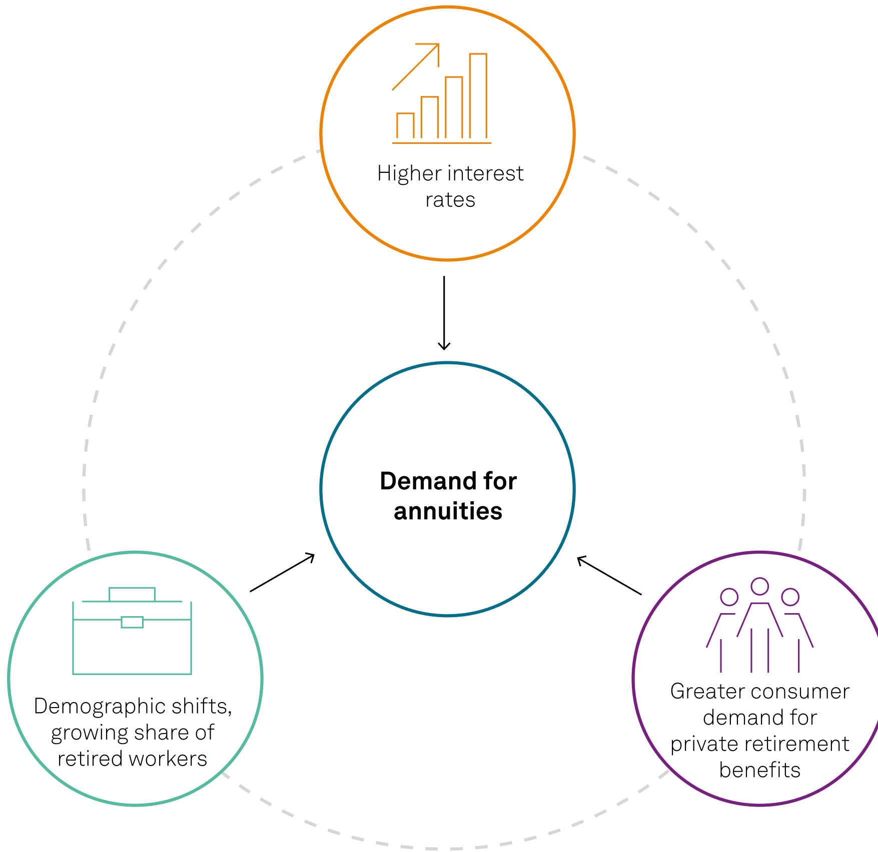
Source: S&P Global Ratings.

What's Happening

Sales of annuities--especially fixed annuities and fixed-indexed annuities--by U.S. life insurers have spiked since 2021. Demand for annuities and other forms of private retirement benefits has been increasing with favorable market conditions, demographic shifts, and greater consumer demand for life retirement income as most jobs have stopped providing defined benefit pensions. However, annuities have become much more attractive to policyholders since interest rates have started to climb and insurers have raised the crediting rates on annuities.

Chart 6

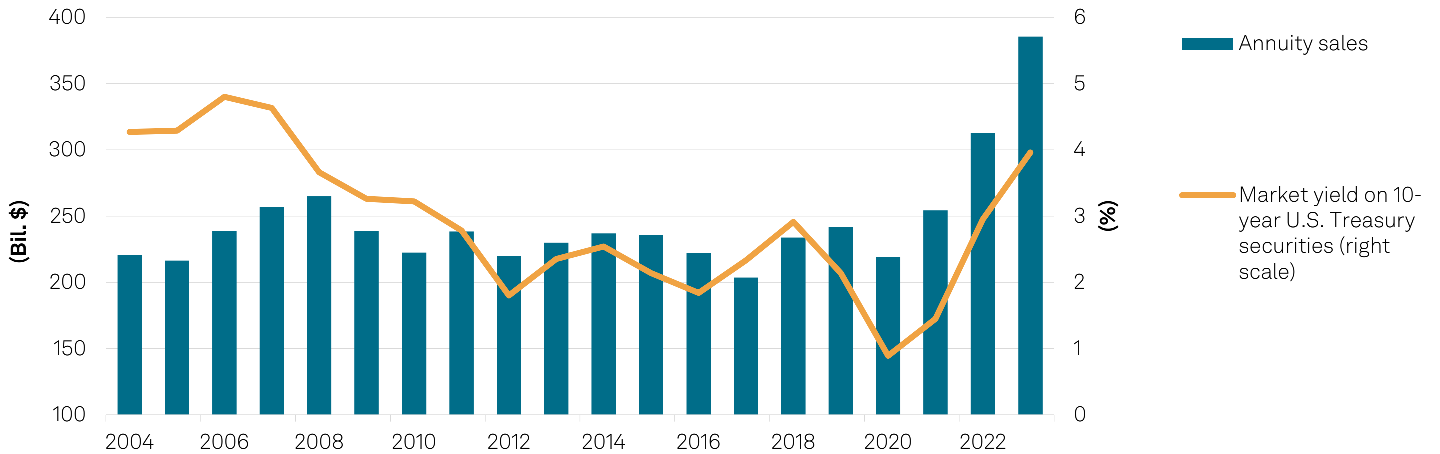
Factors spurring demand for annuities



Source: S&P Global Ratings.

Chart 7

Annuity sales in the U.S. have spiked since 2021



Sources: Insurance Information Institute, LIMRA, Board of Governors of the Federal Reserve System, and S&P Global Ratings.

Why It Matters

Although interest rates may start to fall in 2024, we don't expect annuity sales to return to pre-2020 levels. This is because we don't expect interest rates to return to the extreme lows of 2009-2020, and the demographic factors will continue to spur demand for annuities.

As life insurers move more into the retirement space, they are increasingly exposed to market risk. Traditional life insurance policies present insurers with biological risk, which is much more predictable--and therefore easier to price. Further, life and retirement policies don't renew the way P/C policies do, so life insurers don't have the same opportunity to reprice as risks become apparent.

What Comes Next

Because of this, the shift toward retirement in life insurers' product mixes will likely limit any ratings upside and, over the longer term, perhaps start to push ratings down (although much of this migration may have already occurred). The median rating on the sector is 'A+,' down from the 'AA' category before 2008.

The shift toward retirement in life insurers' product mixes will likely limit any ratings upside.

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