

Reinsurance Predictions 2026

Wildfire risks will bring greater scrutiny

With the major reinsurers reeling from the estimated US\$40 billion insured losses from the massive wildfires in Los Angeles in January 2025, an urgent reassessment of portfolios, rates and retentions is underway. Europe is the key focus, where reinsurers fear that the risks have been underestimated, a concern highlighted by the European Insurance and Occupational Pensions Authority which said recent trends show France, Greece, Italy, Portugal and Spain all have the potential to suffer annual economic losses of over US\$2.5 billion from wildfires. Governments and regulators in Europe will be watching the response of the market in terms of availability and affordability of cover as they will not want to see the protection gap for catastrophe losses widen. A recent report said this was already at a level that was leading to talk of state intervention in Greece, Portugal, Croatia, Cyprus and Austria. This could take the form of joint public-private insurance schemes or obligations on insurers to take on wildfire risks if they want to operate in risk-prone regions.

European storms will also disrupt the reinsurance industry

Reinsurers will also face further losses arising out of severe convective storms affecting major economies across Europe and in the United States in the years to come. This occurs where climate change alters atmospheric pressures leading to large hail, heavy rainfall and strong winds. This will in turn result in both casualties and substantive material damage in developed areas. It is expected that losses will run to hundreds of millions in Europe, whereas in the United States the insurance market can expect losses in the tens of millions. The increase in losses will have disruptive effects on the reinsurance industry, exacerbating hikes in reinsurance premiums and requiring considerable underwriting acumen to minimise disruption, including disproportionate financial exposure for the market.

Innovation of terrorism cover will continue in commercial property wordings

We will likely see further development in terrorism policy wordings as a result of the 2025 update to Pool Re's Treaty. The update introduced several amendments which we will see carried forward into policy wordings. Changes include a bifurcation of risks into conventional and non-conventional terrorism, which insurers may seek to replicate into their wordings. We anticipate further innovation and expect a shift away from standalone terrorism cover towards an embedded cover that reintroduces cover into standard commercial property wordings.

Silent AI exposures will require reinsurance consideration

As policy wordings in the primary insurance market evolve to address the growing role of AI in business operations, insurers will increasingly look to their outward reinsurance arrangements to ensure that AI-related risks affirmed at the primary level are also adequately covered under their reinsurance programmes. Equally, reinsurers may seek to condition or exclude AI-related risks which may impact how reinsurance claims are adjusted.

Increased use of parametric insurance will help reinsurers respond to evolving risks

The volume of reinsurance claims will likely trend upwards, especially from natural catastrophes, with reinsurers facing margin pressure due to both increased loss activity and softer market conditions. The sector will remain profitable, but with heightened volatility and a greater focus on risk selection and capital management. At the same time, we expect to see accelerated adoption of parametric risk transfer solutions within reinsurance programmes as a way for reinsurers, and cedents, to better manage the evolving risk landscape.

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