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A view of a burned beachside house after the Palisades Fire in California in January. JON PUTMAN/ ANADOLU/ GETTY IMAGES

Insurance Rates Should Fall Next Year

The U. S. avoided a major hurricane this year, but insurers should stay wary of elevated future losses

The U.S. got lucky during hurricane season. That could help lower insurance costs next year. But don't bet on too much.

This year marked the first time in 10 years that none of the hurricanes that formed during the Atlantic season made landfall on the U.S. coast, according to the Swiss Re Institute. In most years, these are among the costliest catastrophes for insurers.

The Swiss Re Institute estimates that 2025 generated $107 billion in insured losses globally from natural catastrophes, down by more than $30 billion from 2024. That would be the lowest total since 2020, with past losses adjusted for inflation.

But due to the frequency of other disasters, including wildfires and severe thunderstorms, the year's natural-catastrophe insured losses are still within 5% of the prior 10-year, inflation-adjusted average annual loss, Swiss Re Institute figures showed. The year's California fires were the costliest ever wildfires, at $40 billion in estimated insured losses, it said.

It was hardly a calm Atlantic storm season overall. The season did generate three Category 5 hurricanes, the second-most on record formed in a single season, according to the National Oceanic and Atmospheric Administration. That included Hurricane Melissa that made landfall in Jamaica. It was "short-term weather patterns" that helped steer tropical storm systems away from the U.S., according to an NOAA release.

Yet despite the active season and still-substantial losses, the pricing of backstop insurance for insurers, or reinsurance, is set to drop sharply in 2026. A recent note by analysts at TD Cowen said that conversations with industry experts pointed toward a roughly 15% broad decline in pricing for property-catastrophe reinsurance as January policy renewals occur.

Reinsurance is a critical wholesale market that ultimately impacts pricing on the policies written for consumers and businesses. A surge in reinsurance costs that started in 2023 was one key driver behind homeowner and auto policy hikes. And those hikes have played a big part in overall ~~U.S.~~ price inflation in recent years.

But now, the relatively lighter year for catastrophe insurance losses is helping push pricing down. Lower damages also mean it was a profitable year for many investors in insurance-linked securities, which means more capital can flow into the sector next year. More capital in the market provides more of a supply of insurance, and puts pressure on prices.

Note

In particular, there has been another surge of issuance of catastrophe bonds, or cat bonds. These are securities that pay a relatively high yield to investors, but take principal losses when triggered by certain events or insurance loss levels. They are prized for both their payouts and for being uncorrelated to other market forces. Over the course of 12 months ending in June, the total volume of outstanding cat bonds rose almost 20% to a record $54 billion, according to Aon Securities.

"Capacity in the traditional market is plentiful and capital inflows to the alternative markets, particularly catastrophe bonds, are also pushing prices lower," analysts at Moody's Ratings wrote earlier this year.

Following the property catastrophe reinsurance reset in 2023— when pricing jumped by around a third by some measures—providers of this wholesale coverage also likely have some cushion to lower rates or expand coverage while still expecting to earn good risk--adjusted returns.

This decline in reinsurance pricing is welcome news for primary insurers, which sell policies to individuals and businesses.

Car insurers, for example, have already been aiming to lower rates to grab market share. Some states are using reinsurance markets to fund programs to provide insurance where private firms won't, or to offset rising insurance costs.

The question for investors is whether this lower pricing is really merited. Or is it just a warning sign that the next big disaster could be even costlier to them?

Note

Even ahead of any upcoming pricing move, insurance stocks have badly lagged behind over the last six months. The S&P Composite 1500 insurance sector is up less than 3% so far this year, while the S&P 500 is up over 15%.

Andrew Kligerman, an analyst at TD Cowen, said that reinsurers are likely to be "quite profitable" again next year. But there is a risk of a future "overshoot" in pricing, he said: "Some investors fear that property pricing could come down for two or three years, creating a negative sentiment."

There can be good reasons for insurance costs to fall. Underwriters may be able to pinpoint risks better among customers or regions. The NOAA's National Hurricane Center, notably, incorporated artificial-intelligence model guidance into its forecasts for the first time for the 2025 season.

And perhaps homeowners or apartment builders have invested more in their roofs, or taken defensive measures in landscaping in wildfire-prone areas. In Florida, legal reforms related to insurance claims may be playing a role in hurricane insured loss risk, according to TD Cowen analysts.

Note

But the magnitude of these mitigants can't fully be judged until after the fact. And though they are painful, high insurance rates can also be the market's way of sustaining those efforts over time.

Natural disasters themselves may be considered acts of God. But the resulting insurance losses can be the industry's own doing.

—*Telis Demos*

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