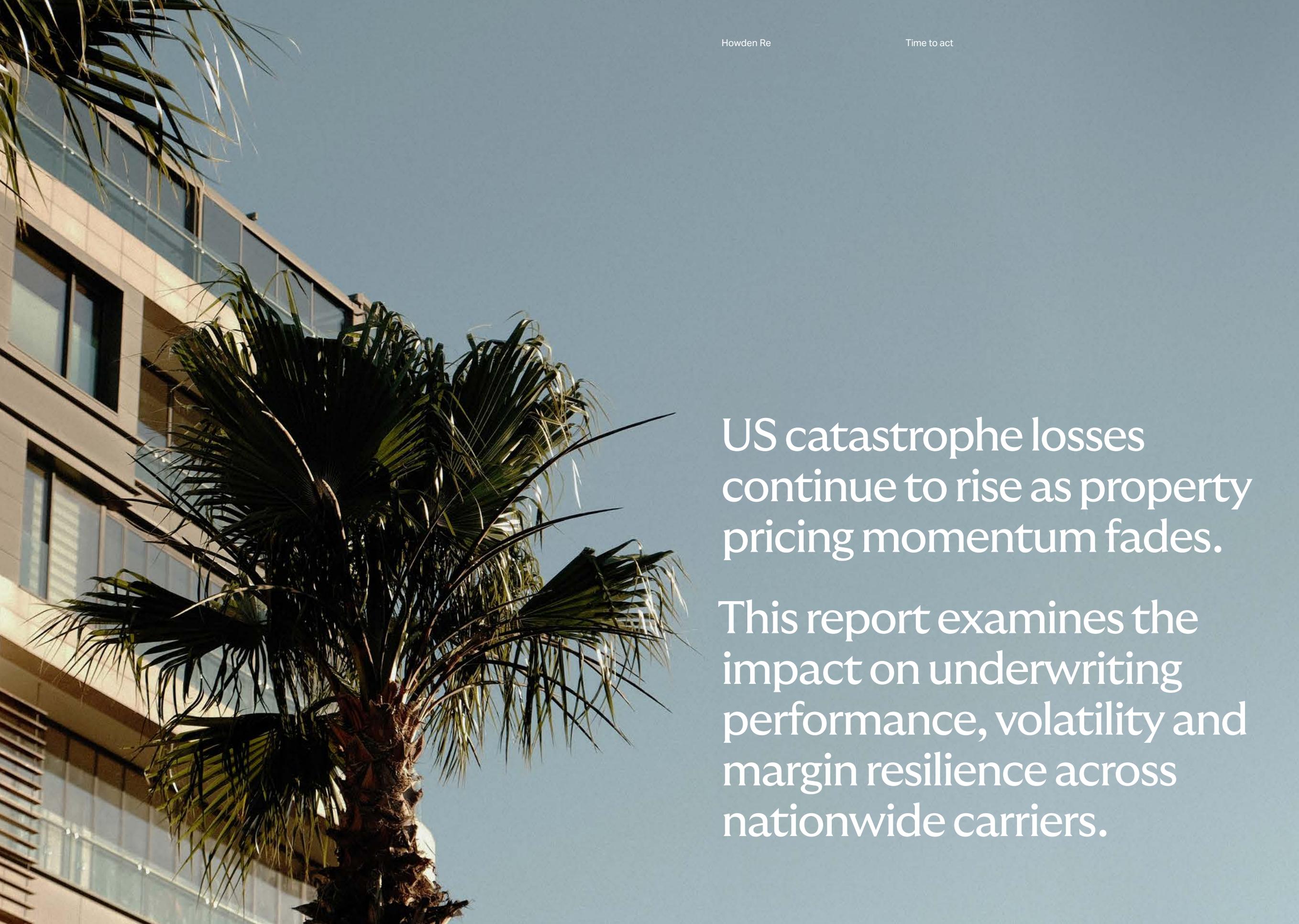


Howden Re

Time to act

Catastrophe risk in
a softening market

HOWDEN



US catastrophe losses continue to rise as property pricing momentum fades.

This report examines the impact on underwriting performance, volatility and margin resilience across nationwide carriers.



Key findings

In the final quarter of each year, Howden conducts extensive research into the state of the global insurance and reinsurance markets, the risk landscape and macroeconomic drivers.

The main conclusion at 1 January 2026, as reported in *Re-balancing*, was that the reinsurance market has decisively entered a new phase of the cycle characterised by lower rates, increased supply and greater competition.

Against this backdrop, many carriers are examining whether to take advantage of favourable reinsurance market conditions to hedge rising catastrophe-driven volatility and protect profits as hard market tailwinds recede.

Whilst numerous studies have quantified insured natural catastrophe losses at the industry level, few have examined the impact on reported underwriting performance, which is a more relevant angle for listed carriers, particularly with share prices now retreating.

Key findings

To help address the gap, Howden Re analysed the impact of natural and man-made catastrophes on quarterly combined ratios (catastrophe loss loads¹) for a composite of 14 nationwide US carriers over the last 25 years.

¹ Catastrophe losses net of reinsurance + reinstatement premiums / net earned premiums based on quarterly and annual filings.

Our objective is to gain a deeper understanding of:

- The impact of catastrophes on underwriting profitability and volatility.
- The extent to which recent elevated natural catastrophe losses have caused a divergence in performance at the carrier level.
- The outlook for underwriting profitability and volatility amidst falling property insurance rates and ongoing extreme weather.

The key findings are:

Catastrophe loss loads have risen steadily

The average catastrophe loss load for the composite increased from 2.7% in 2000-04 to 5.4% in 2020-25. 2020-25 saw a larger jump than any five-year period since 2000, driven by the high frequency of low-to-mid sized losses, severe convective storms (SCS) in particular.

The recent hard market bolstered overall performance

The composite combined ratio (for all lines) fell by 2.6 percentage points from 96.0% in 2015-19 to 93.4% in 2020-25. Cumulative direct property rate rises of ~160% from 2017 to the 2024 peak, alongside tighter terms, helped offset elevated catastrophe losses – tailwinds that are now reversing as double-digit rate reductions earn through.

Carrier-level net underwriting performance has diverged materially

The delta between the lowest and highest catastrophe loss load in the sample widened from 7.1 points in 2000-04 to 11.7 points in 2020-25, reflecting differing approaches to business mix, reinsurance use and peak-zone exposure management.

The outlook is for significantly less headroom to absorb volatility

A reversion in the non-cat combined ratio to the 2015-19 average – the most recent soft-market benchmark – would compress underwriting margins (defined as 100% less the combined ratio) from 6.6% to 3.0%, materially reducing the sector's ability to absorb elevated SCS and a severe hurricane season.

A receptive reinsurance market makes this the time to act

Converging demand- and supply-side dynamics, driven by insurers' renewal budget savings and reinsurers' unmet growth targets at 1 January 2026, create a compelling, time-limited opportunity to secure supplementary reinsurance and protect earnings in a more volatile environment.

At Howden Re, we strive to use original, data-driven analysis to deepen our clients' understanding of the market and inform their reinsurance purchasing strategies. This report aims to do just that.

Catastrophe risk in a softening market

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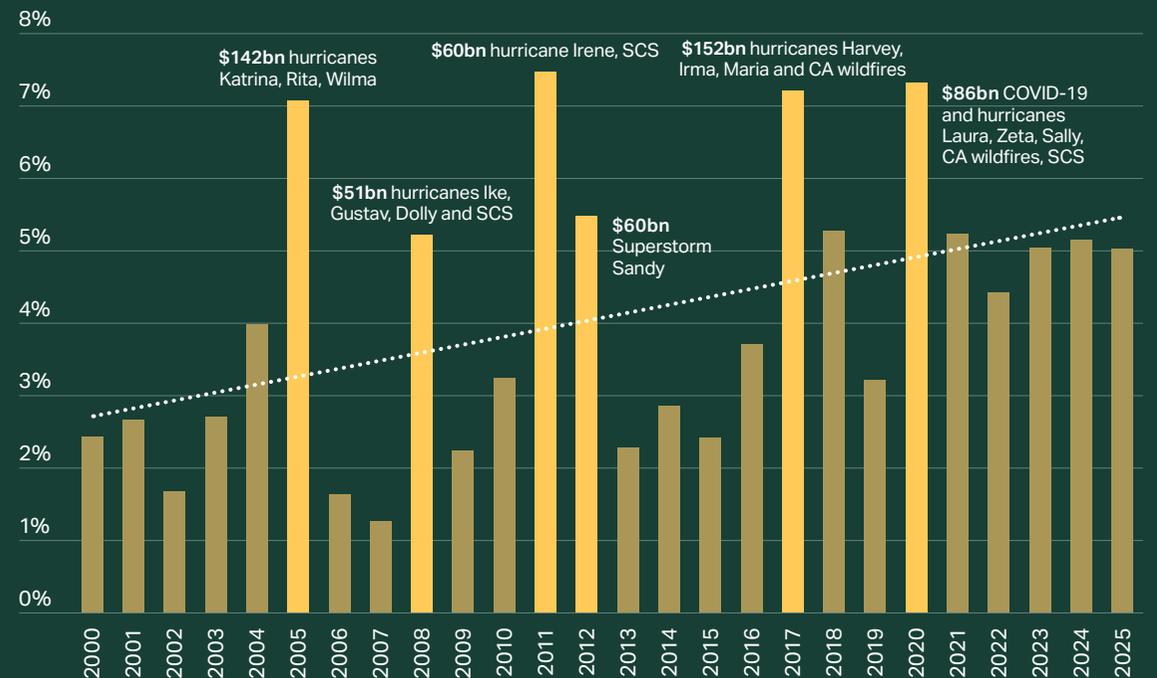
Structurally higher catastrophe losses are now a defining feature of the (re)insurance landscape, driven by the frequency and severity of weather-related events, exposure growth in high-risk areas and inflation.

Rate increases during the recent hard market have preserved profitability, enabling insurers to absorb heightened loss activity without undermining capital stability. As these margins are competed away in a softening market, earnings volatility is likely to rise.

Rising catastrophe losses

Global insured natural catastrophe losses have risen consistently in recent years, breaching US\$100 billion annually since 2020 and signalling a new normal for loss expectations. This has translated into materially higher catastrophe loss loads for many carriers, particularly in the US where high insurance penetration and extensive development in catastrophe-prone areas are amplifying losses (see Figure 1).

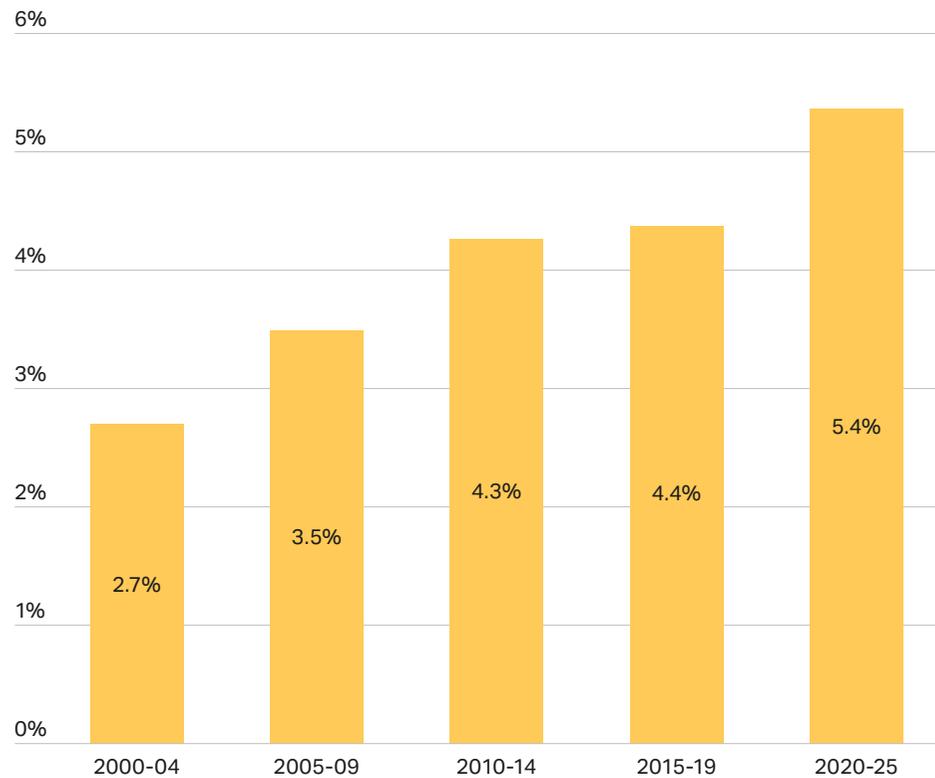
Figure 1
Average quarterly catastrophe loss load – 2000 to 2025
Source: Howden, NOVA, company accounts



Note: labelled US catastrophe losses inflation-adjusted to 2025 dollars.

The trend is even more pronounced over five-year intervals. As shown in Figure 2, the average loss load rose from 2.7% in 2000-04 to 5.4% in 2020-25, with the largest increase occurring in the most recent period.

Figure 2
Average quarterly catastrophe loss load by period
Source: Howden, company accounts

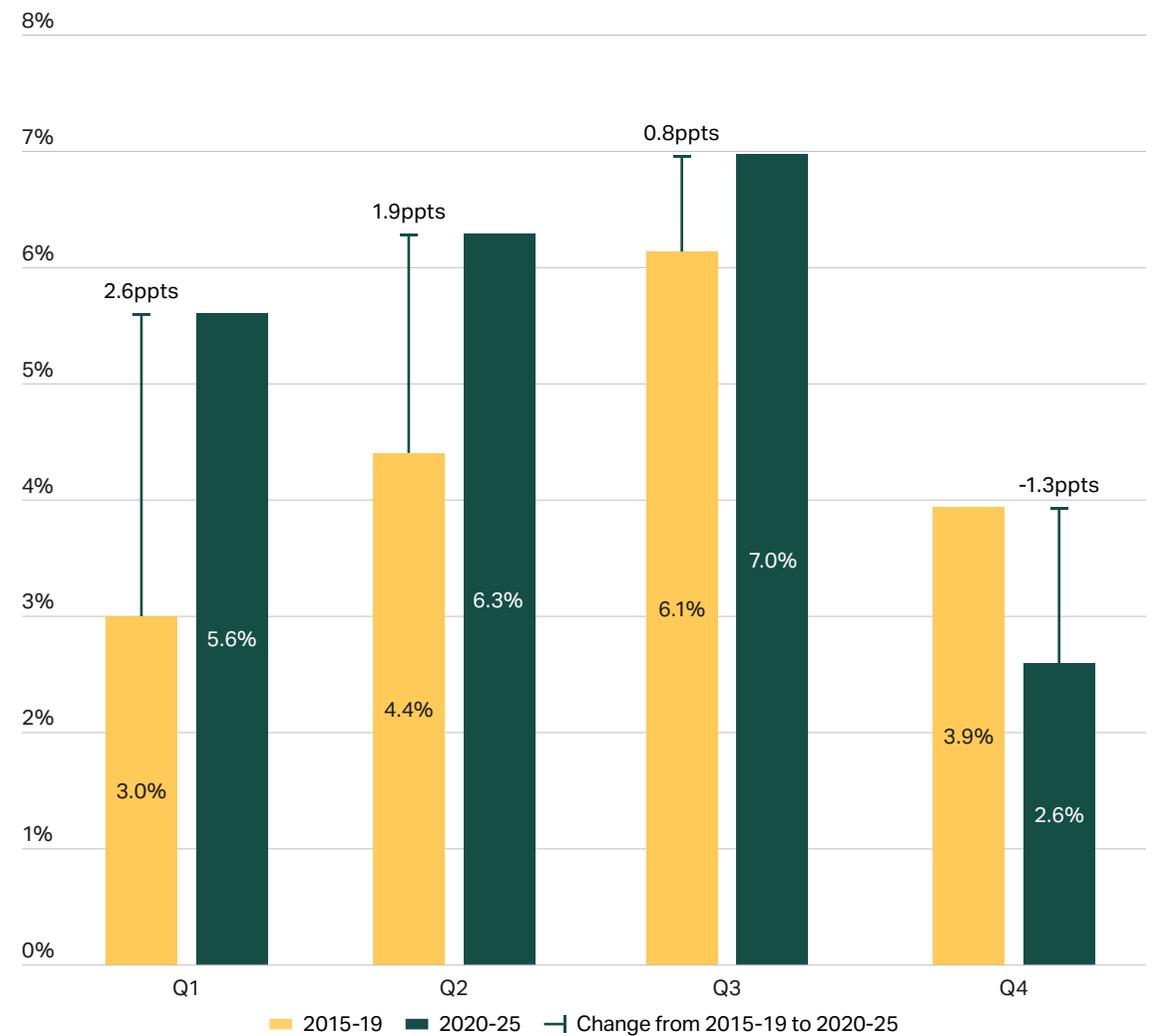


Structural changes in the catastrophe market have left insurers assuming a higher proportion of claims during a period characterised by frequent low-to-mid-sized non-peak events and reinsurers' retrenchment from frequency risks.

According to Howden data, cumulative inflation-adjusted US insured natural catastrophe losses increased from US\$252 billion in 2015-19 to US\$412 billion in 2020-24, with SCS accounting for approximately 80% of the uplift.

The outsized impact of SCS is evident in the quarterly distribution of loss loads. As shown in Figure 3, Q1 and Q2 have experienced the largest increases, adding 2-3 percentage points to the composite combined ratio. SCS dominates US insured catastrophe losses in these quarters, accounting for 84% of losses in 2020-25.

Figure 3
Average quarterly catastrophe loss load by period
Source: Howden, company accounts

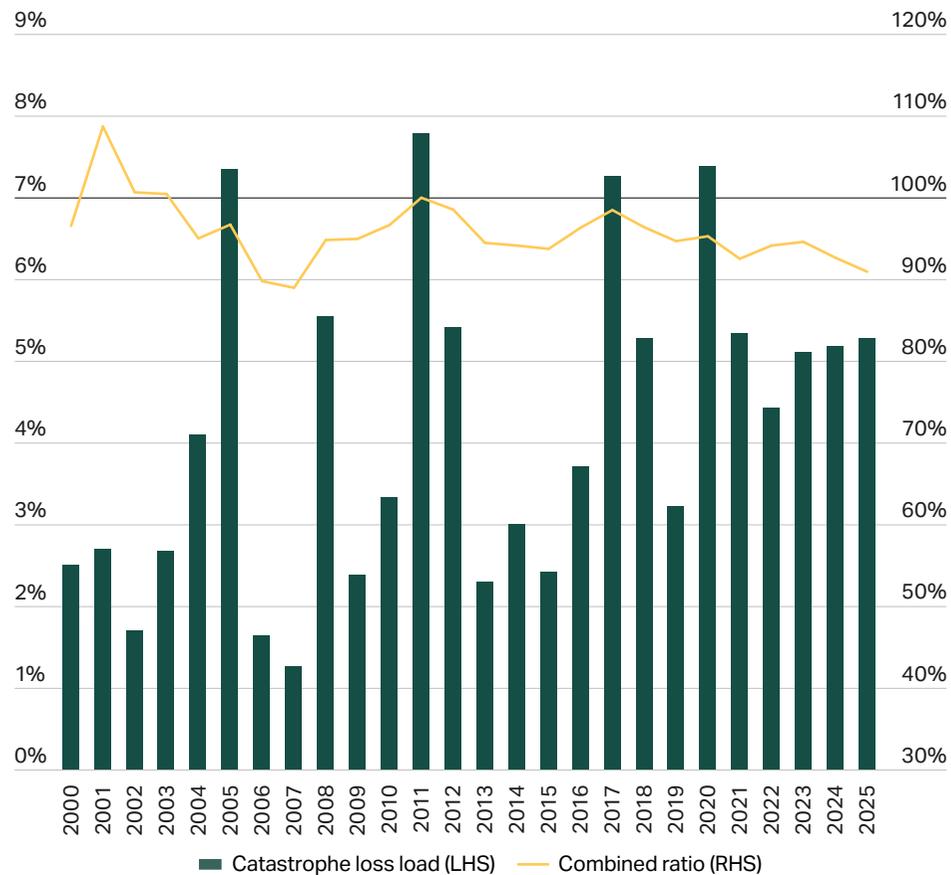


Nuanced impact in hard market

Hard market pricing has supported underwriting performance through this period. The composite combined ratio improved by 2.6 percentage points from 96.0% in 2015-19 to 93.4% in 2020-25 (see Figure 4). Cumulative property rate rises of ~160% from 2017 to the 2024 peak, alongside tighter terms, more than offset the rise in catastrophe losses.

As the lagged benefits of the hard market fade and double-digit rate reductions begin to earn through, catastrophe load contributions to combined ratios are set to rise in a structurally elevated loss environment.

Figure 4
Average quarterly combined ratio and catastrophe loss load by year
Source: Howden, company accounts



Loss volatility is also likely to become more prominent from relatively contained levels. The five-year rolling average standard deviation of the composite's catastrophe loss load stood at 4.7% at 4Q25, placing the current period amongst the least volatile of the past 20 years (see Figure 5). The most recent significant spike occurred in 2017, when hurricanes Harvey, Irma and Maria made US landfall in quick succession, causing US\$142 billion of insured losses in 2025 dollars.

Figure 5
Standard deviation in catastrophe loss load – rolling five-year period
Source: Howden, company accounts



Trends are far more nuanced at the individual carrier level, with dispersion widening across both catastrophe loss loads and volatility. As shown in Figure 6, the gap between the lowest and highest catastrophe loss load widened to 11.7 points in 2020-25, up from 10.7 points in the preceding five years.

4.7%

Five-year rolling average standard deviation of the composite's catastrophe loss load at 4Q25

Given the broadly comparable 50-state footprints of these nationwide carriers, and therefore exposure to similar catastrophe trends, the widening gap suggests that underwriting discipline, portfolio construction and reinsurance strategy (rather than pure hazard exposure) are the primary drivers of the growing performance delta.

The average change in volatility across the sample (as measured by standard deviation in the catastrophe loss load) was a modest decrease of 0.04% from 2015-19 to 2020-25.

However, as shown in Figure 7, this headline figure masks significant dispersion at the individual carrier level, with outcomes ranging from reductions of more than 6% to increases of over 2%.

Divergence in underwriting performance across comparable peer groups is a key input to decision-making on volatility protection, not least because outsized losses can trigger disproportionate share price underperformance.

Figure 6
Average catastrophe loss load by period by carrier
Source: Howden, company accounts

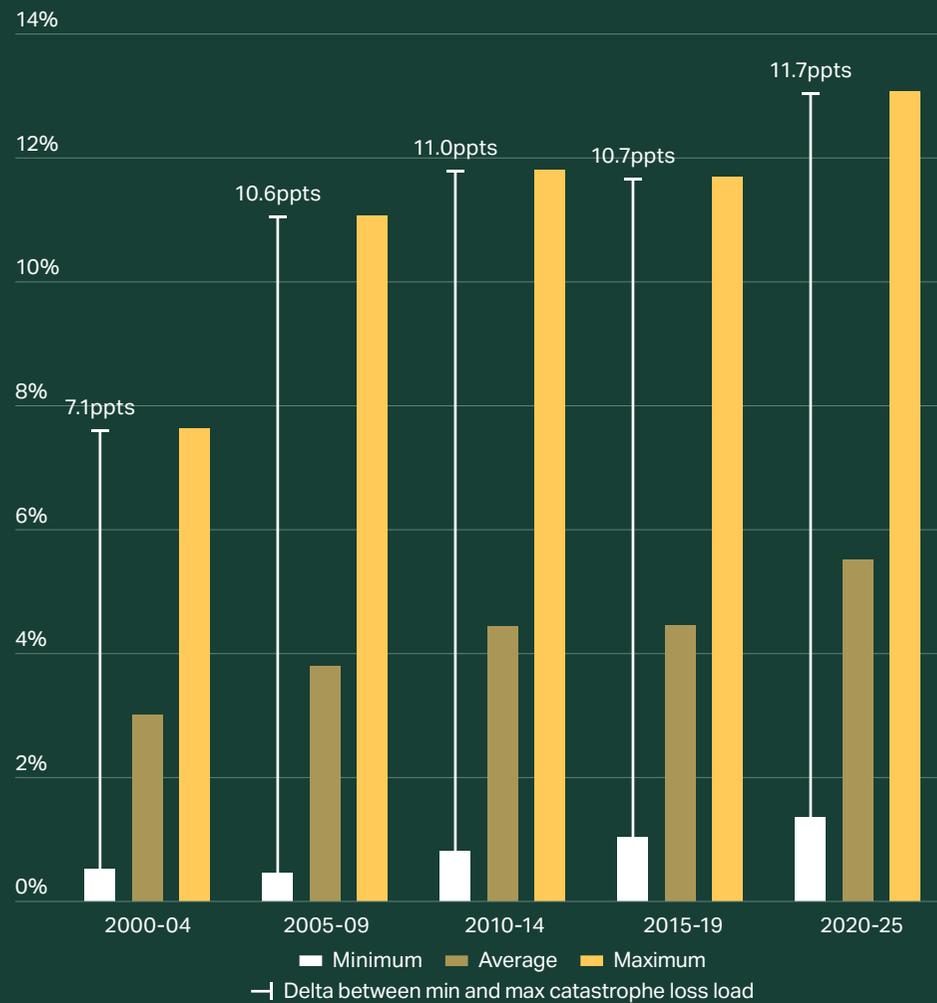
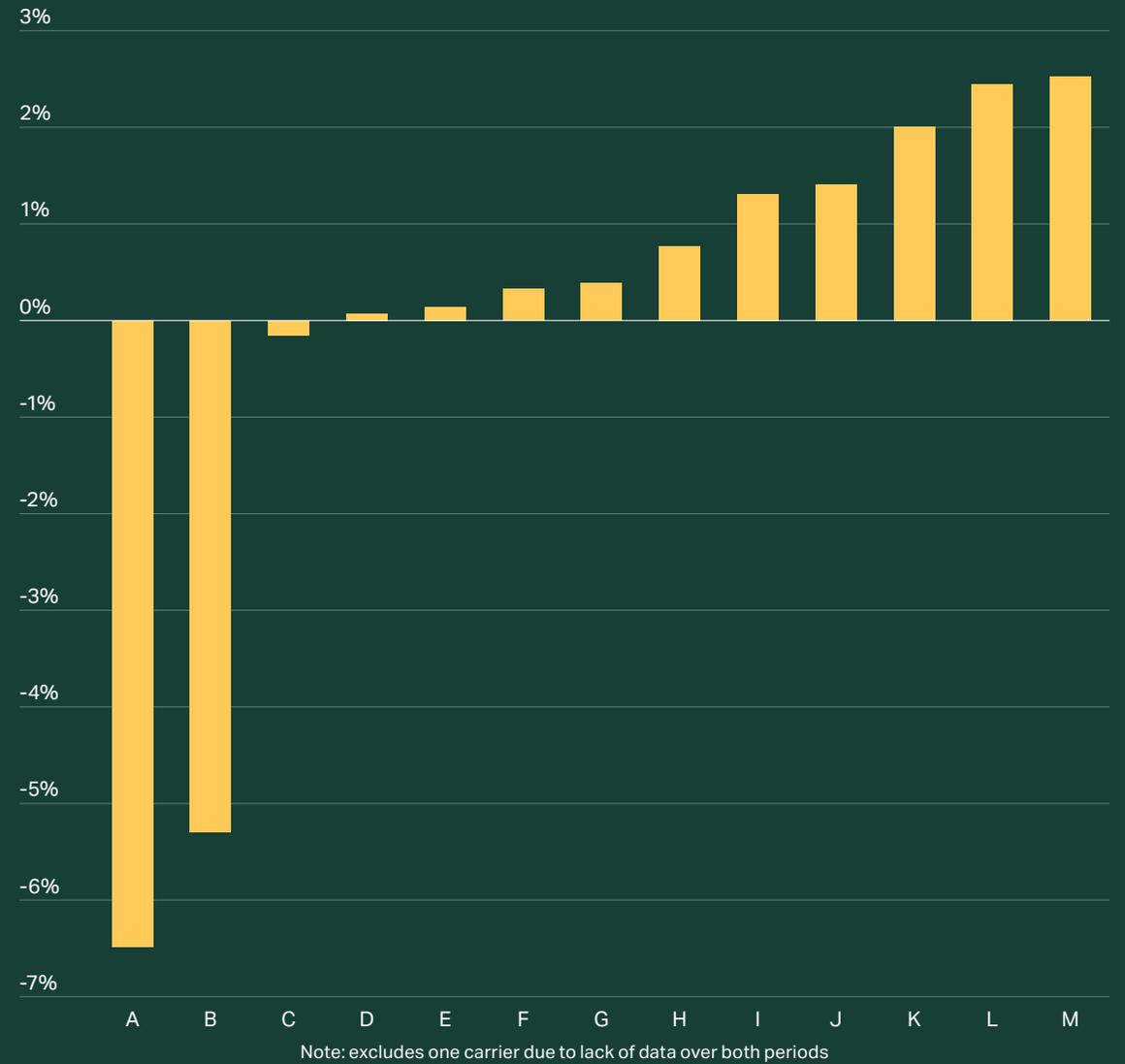


Figure 7
Change in catastrophe loss load standard deviation by carrier – 2015-19 to 2020-25
Source: Howden, company accounts



Underwriting
margins

could
fall from

6.6%

to just

3.0%

as rates
soften.

Volatility risk rising

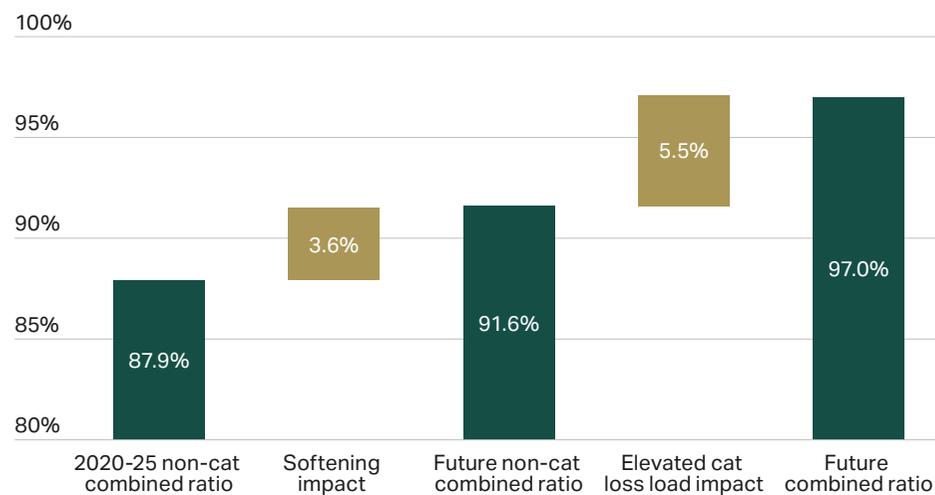
Equally important is a forward-looking assessment of how a softening market and persistent extreme weather are likely to affect future performance.

Heading into 2026, the softening market continues to gather pace. Howden's US property insurance rate index has fallen by ~22% from its mid-2024 peak, with annual rate reductions accelerating to an average of 17% in 4Q25.

Price softening is already threatening underwriting margins for some carriers, reducing their ability to absorb volatility from outsized catastrophe losses, particularly those that typically occur in Q3 during peak hurricane season.

Figure 8 illustrates the sensitivity of profitability to market softening. Using the 2020-25 non-cat combined ratio as a baseline, a reversion to the 2015-19 average – the most recent soft-market benchmark – would add 3.6 percentage points. Sustained elevated catastrophe loss loads (conservatively held at 2020-25 levels in our model) would contribute a further 5.5 points, bringing the combined ratio to 97.0% and materially reducing underwriting margins.

Figure 8
Estimated impact of market softening and elevated catastrophe losses on the combined ratio
Source: Howden, company accounts



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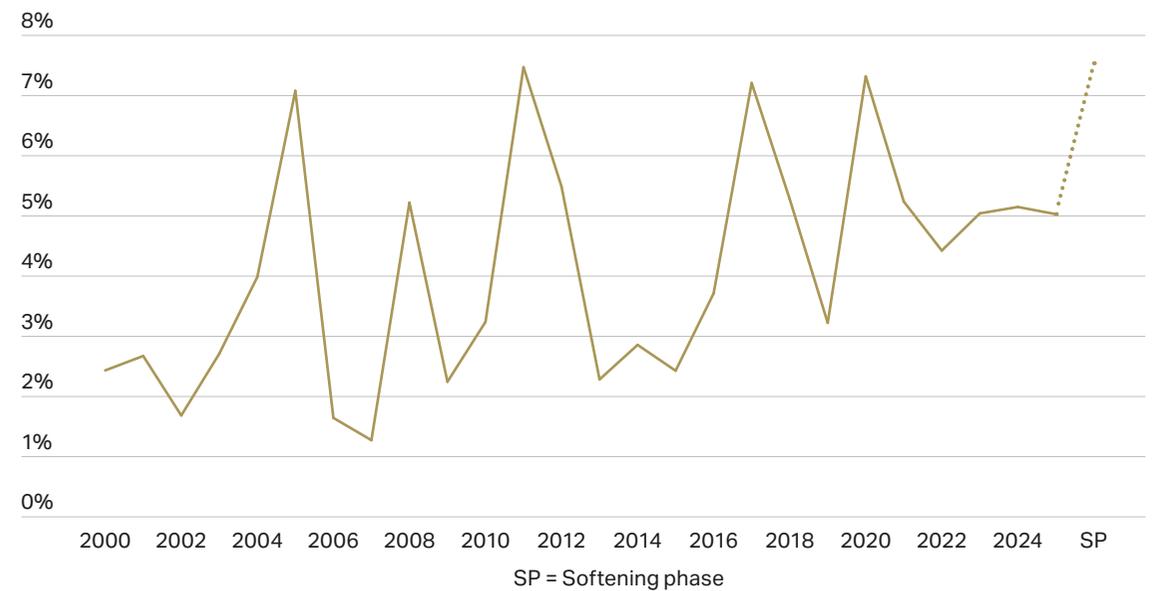
On this basis, underwriting margins would compress from 6.6% (based on 100% minus the 2020-25 average combined ratio) to 3.0%. The reduced buffer would significantly limit the sector's ability to withstand a volatility shock, particularly from elevated SCS losses early in the year or a major hurricane.

3.0%

Remaining underwriting margin in a soft market, elevated loss environment

This dynamic is reinforced by Figure 9, which assumes a soft-market scenario in which elevated Q2 and Q3 catastrophe loss loads persist at 2020-25 levels. Adding in a severe Q3 loss scenario, benchmarked to the average of the five largest Q3 loss years since 2000 (15%), produces the highest catastrophe loss load in the past 25 years.

Figure 9
Average quarterly catastrophe loss load including estimate for softening market phase
Source: Howden, company accounts



Taken together, our analysis shows that insurers enter the next stage of the cycle from a position of relative strength, but with less protection than headline results might suggest. With structural catastrophe pressures likely to persist, dispersion across carriers widening and price softening eroding buffers, the ability to manage volatility will increasingly differentiate performance.



Managing volatility

Reinsurance has long been central to insurers' ability to manage risk and volatility.

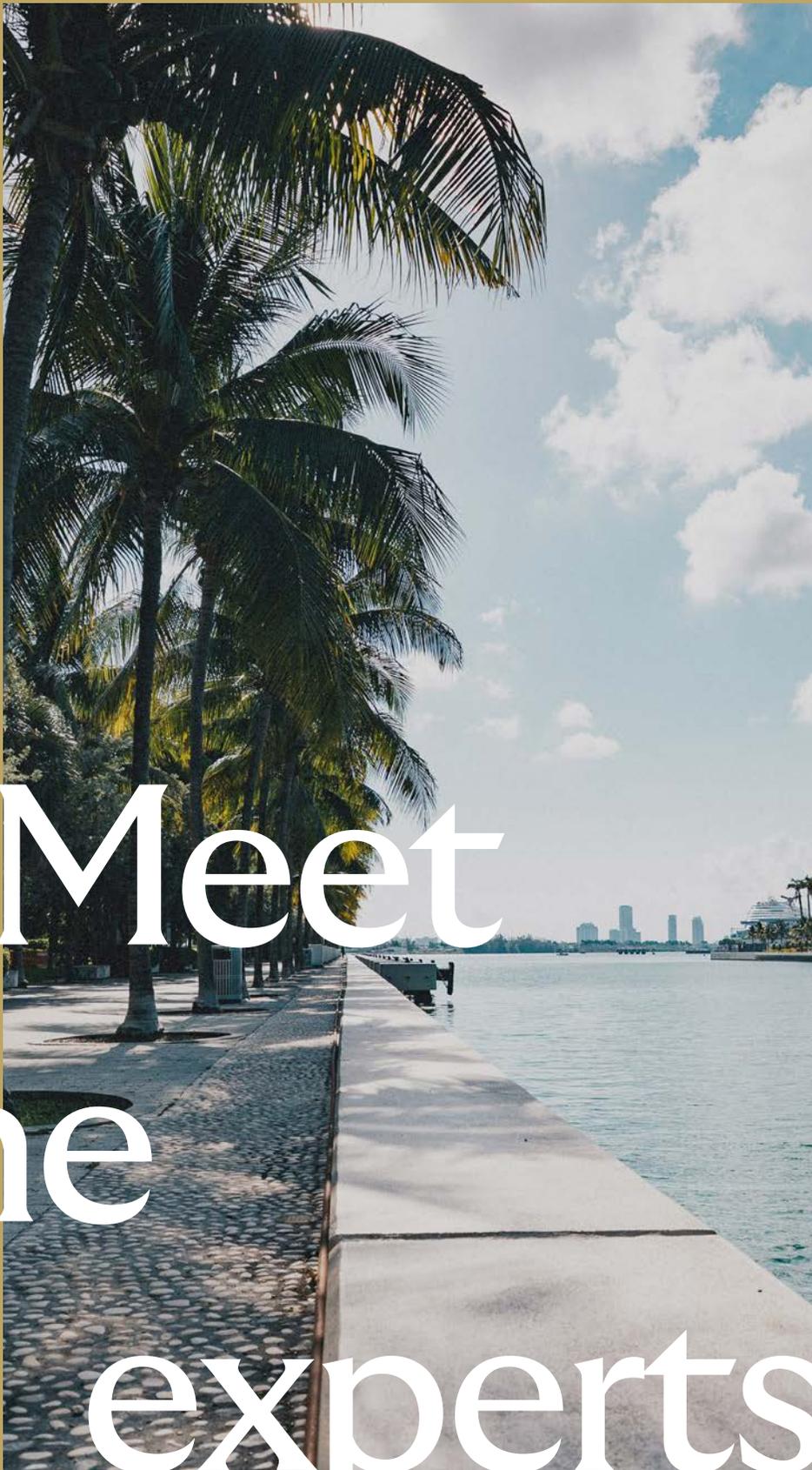
When deployed strategically, it can reduce the cost of capital, improve solvency, minimise earnings volatility and support disciplined growth – attributes that are especially valuable in today's heightened risk landscape and softening property market.

The 1 January 2026 renewal brought highly competitive market dynamics, with reinsurers demonstrating strong support for cedents. Most insurers achieved meaningful savings on core placements, helping to offset primary rate pressure and creating incremental budget capacity.

Reinsurers' drive to accelerate growth following shortfalls at the 1 January renewal is reinforcing favourable conditions for buyers in 2026. This has increased capacity for products scaled back during the 2023 reset, including aggregate and frequency protections now structured to reflect material changes in underlying portfolios.

Against a backdrop of structurally higher catastrophe loss loads, widening performance dispersion and declining pricing, this alignment of demand- and supply-side dynamics presents a compelling, time-limited opportunity to strengthen reinsurance protection ahead of this year's wind season.

Howden Re is working with clients to redeploy renewal savings into targeted volatility-reducing structures, helping to support earnings and strengthen underwriting resilience.



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