Commentary

Commercial Property Insurance Prices Are Softening Despite Escalating Insured Losses—but for How Long?

Morningstar DBRS
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Key Highlights

- Natural catastrophe weather-related events have become more frequent and intense, leading to ever-higher insured losses, even when adjusted for inflation.
- However, we observe recent softening in commercial property insurance premiums that is primarily driven by abundant reinsurance capital and market competition.
- Although reinsurance capacity and pricing eased through mid-2025 at an aggregate level, loss-affected or wildfire-exposed regions will likely face tighter terms and higher retentions amid reinsurers' underwriting discipline.

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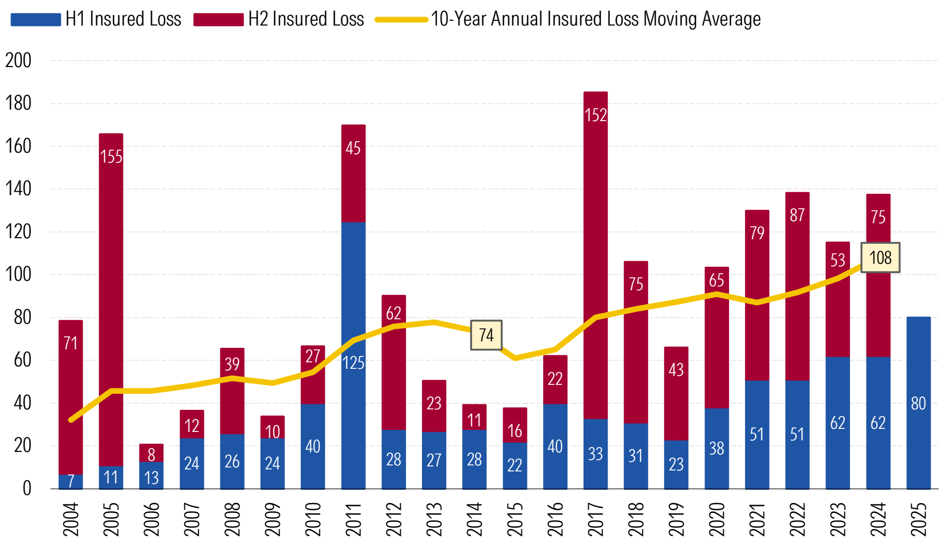
Overview

In H1 2025, global insured natural catastrophe losses amounted to $80 billion, making it one of the costliest first half-years on record for insurance companies, second only to H1 2011 when multiple earthquakes and flood events occurred (Exhibit 1). This year, most of the H1 insured loss was caused by the wildfires that affected parts of the Los Angeles County in January, causing the largest global insured loss from a wildfire. Wildfire risk has been on the rise over the last decade, much of it attributed to rising temperatures and drier conditions at a time when suburban sprawl is leading to more housing units situated within wildfire-prone regions. According to Swiss Re, prior to 2015, wildfire-related insured losses made up around 1% of all natural catastrophe claims, but that proportion has increased to 7% in the last 10 years.

More generally, natural catastrophe weather-related events have become more frequent and intense, leading to ever-higher insured losses even when adjusted for inflation. However, despite the worsening climate-related losses, we observe recent softening in commercial property insurance premiums that is primarily driven by abundant reinsurance capital and market competition. Nonetheless, property and casualty (P&C) risk mitigation responses, primarily through annual premium re-pricing and well-designed reinsurance programs have been effective in mitigating adverse profitability and credit rating implications within our rated universe.

Exhibit 1 Natural Catastrophe Insured Losses H1 and Full Year (Inflation-Adjusted USD Billions)



Source: Swiss Re, Morningstar DBRS.

Higher Wildfire Activity

In January 2025, blazes swept through parts of Los Angeles County causing multiple casualties and destroying around 16,000 high-value structures. The insured losses from the Los Angeles wildfire are estimated at $40 billion, higher than any other wildfire event in history. The prolonged Santa Ana winds, built-up vegetation from prior seasons, and lack of rainfall in the highly built-up area situated at the urban-rural frontier have contributed to the severity of this event.

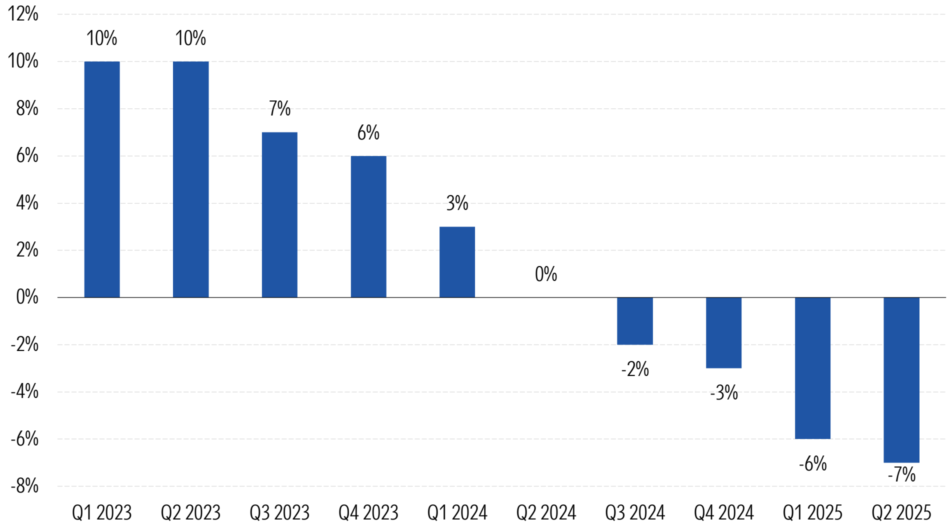
Unfortunately, wildfire activity in recent years has been above average in many parts of the world. For example, across Europe, this year has been the worst wildfire season since records began in 2006 as more than one million hectares have burned, concentrated in Southern European countries of Spain, Portugal, and Greece. Meanwhile, the UK has experienced possibly the hottest summer since 1884. In Canada, the 2025 wildfire season is already the second-worst on record (behind 2023, when an astounding 17.3 million hectares were destroyed). Scientists at World Weather Attribution studying the extreme weather conditions that drove the recent European wildfires warn that climate change makes wildfires more likely and more difficult to suppress. Generally, consecutive seasons of extremely hot and dry conditions erode suppression capacity, prolong the burn season, and increase the probability of lightning that sparks fires.

Globally, wildfires are increasingly contributing to higher insurance claims. According to Swiss Re, prior to 2015, wildfire-related insured losses made up around 1% of all natural catastrophe claims, but that proportion has increased to 7% in the last 10 years. When it comes to wildfire damage, there are typically no (or very few) exclusions in most insurance policies, resulting in proportionally larger claims relative to other perils. These claims most often relate to damage and total loss of property and equipment, smoke and ash-related losses, cost of living expenses following mandated evacuations, and loss of income for insured business in affected areas.

Commercial Insurance Property Premiums Trending Lower for Now

Despite the increasing trend in natural catastrophe-insured losses (Exhibit 1), commercial property insurance prices are softening. As illustrated in Exhibit 2, the softening trend began in mid-2024 and has continued to accelerate with commercial property insurance prices in Q2 2025 declining by 7% compared to year-ago levels. The downward price trend is expected to continue into 2026.

Exhibit 2 Global Commercial Property Pricing Index Year-Over-Year Changes



Source: Marsh Specialty and Global Placement, Morningstar DBRS.

Some of the factors driving commercial property insurance premiums lower include softening reinsurance prices as well as the ambitious growth aspirations of insurers.

Guy Carpenter's Global Property Rate-on-Line Index, which measures global property catastrophe reinsurance rate movements, declined by 8.1% in H1 2025. This is the first decrease in the global property catastrophe reinsurance rate since 2017. Ample reinsurance capital capacity, both in terms of traditional reinsurers and third-party capital growth, has helped sustain lower reinsurance property prices since the start of 2025, and will most likely persist in the near term. Third-party capital is primarily referring to catastrophe bonds and sidecars (shell companies that take on risk and issue securities to investors). It is also notable that retail investors are increasingly accessing catastrophe bond markets, thereby providing additional capital that was previously not available. But, as some of the largest reinsurers contend, third-party capital could prove unstable and might abruptly withdraw capacity in the aftermath of major catastrophic losses.[1] This would most likely lead to sharp reinsurance rate corrections as witnessed most recently in 2023. Meanwhile, we expect that traditional reinsurance capital will continue to grow at a steady pace, supported by strong underwriting results, retained earnings, and solid investment returns (see our commentary *Global P&C Reinsurers: Solid Earnings in 2024, but There Are Potential Headwinds on the Horizon for 2025*, published April 3, 2025).

The key challenge for both insurers and reinsurers as they set out to fulfil their growth aspirations will be to maintain underwriting discipline. To achieve this goal, we expect a clear price differentiation between loss-free and loss-affected programs. For instance, insurers exposed to regions affected by recent wildfires will likely face higher attachment points, lower aggregates, and stricter wordings. Higher reinsurance prices for loss-affected programs were already observed at 2025 renewals, and we expect the same in 2026. Loss-free portfolios should maintain or marginally improve terms. The same type of differentiation is expected to be passed on to insureds via primary

[1] Financial Times. Hedge funds' insurance binge threatens catastrophe cover, warns Munich Re. August 28, 2025.

insurers with higher price increases for regions heavily affected by natural catastrophes. Over the longer term, if worsening climate conditions continue to drive up claim costs, commercial property insurance prices may resume their upward trajectory seen in the few years prior to 2024.

Related Research

- *H1 2025 Results Show Canadian P&C Insurers Balancing Strong Premium Growth and Catastrophe Costs*, September 2, 2025
- *Global Reinsurers H1 2025: Solid Results Despite Elevated Catastrophe Losses*, August 26, 2025
- *Wildfires in Southern Europe Highlight Growing Importance of Secondary Perils for the Insurance Industry*, August 18, 2025
- *Strong 2024 Results Confirm the Italian Insurance Sector is in Good Shape*, June 24, 2025
- *Insurance Companies Increasingly Look to AI for Growth and Profitability*, July 15, 2025
- *Middle East Tensions Add Underwriting and Investment Risks for Global Insurers and Reinsurers*, June 24, 2025
- *Reaching a Final Destination? High Court Rules in Favour of Lessors in Russian Aircraft Insurance Test Case*, June 16, 2025
- *Massive Power Blackout in Spain and Portugal: Implications for Insurance Companies*, April 29, 2025
- *From U.S. Trade Policy to Global Insurance Policies: Where Does It Matter and How Will Insurance Companies Respond*, April 24, 2025
- *Aftermath of Los Angeles Wildfires: A Wake-Up Call for Property & Casualty Insurers and Regulators*, April 7, 2025
- *Global P&C Reinsurers: Solid Earnings in 2024 but There Are Potential Headwinds in the Horizon for 2025*, 3 April 2025
- *Navigating Liability: Collision in the North Sea and Marine Insurance Fallout*, 12 March 2025
- *Los Angeles Area Wildfires Will Cause Record Insured Losses; Solutions to Address Insurability Are Needed*, 15 January 2025
- *Los Angeles Wildfires Will Cause Significant Insured Losses, Ranking Amongst the Most Destructive in California's History*, 9 January 2025
- *Hurricane Milton Batters Florida; Likely to Boost Already-High Insurance Prices,* 14 October 2024
- *Insured Losses Expected to Be Moderate If Hurricane Helene Maintains Its Current Course,* 26 September 2024
- *Strong Earnings in H1 2024 Continue to Support Positive Outlook on Global P&C Reinsurers*, 29 August 2024

Notes:
All figures in U.S. dollars unless otherwise noted.

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