

Annual Report on the Insurance Industry

FEDERAL INSURANCE OFFICE, U.S. DEPARTMENT OF THE TREASURY

*Completed pursuant to Title V of the Dodd-Frank Wall Street Reform
and Consumer Protection Act*

SEPTEMBER 2026



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GLOSSARY

A&H		Accident and Health
ABS		Asset-Backed Securities
AI		Artificial Intelligence
AIR	.....	Asset-Intensive Reinsurance
AV	.....	Automated Vehicles
BMA	.....	Bermuda Monetary Authority
Cat Bonds	.....	Catastrophe Bonds
CIMA	.....	Cayman Islands Monetary Authority
CLO	.....	Collateralized Loan Obligation
Dodd-Frank Act	.....	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EIOPA	.....	European Insurance and Occupational Pensions Authority
EU	.....	European Union
Federal Reserve	.....	Board of Governors of the Federal Reserve System
FEMA	.....	Federal Emergency Management Agency
FIO	.....	Federal Insurance Office
FSOC	.....	Financial Stability Oversight Council
IAIS	.....	International Association of Insurance Supervisors
ICS	.....	Insurance Capital Standard
IFTRIP	.....	International Forum of Terrorism Risk (Re)Insurance Pools
ILS	.....	Insurance-Linked Securities
Insurance Industry	.....	Combined L&H and P&C insurance sectors; excludes health insurers which are licensed solely to write health insurance business or as health maintenance organizations
IUCRC	.....	Industry-University Cooperative Research Center

L&H	.....	Life and Health
M&A	.....	Mergers & Acquisitions
MOU	.....	Memorandum of Understanding
NAIC	.....	National Association of Insurance Commissioners
NFIP	.....	National Flood Insurance Program
OECD	.....	Organisation for Economic Co-operation and Development
P&C	.....	Property and Casualty
PLR	.....	Private Letter Rating
PRA	.....	UK's Prudential Regulation Authority
RBC	.....	Risk-Based Capital
Report	.....	FIO, <i>Annual Report on the Insurance Industry</i> (2026)
RILA	.....	Registered Index-Linked Annuities
S&P Global	.....	S&P Global Market Intelligence
Secretary	.....	Secretary of the Treasury
TPLF	.....	Third-Party Litigation Funding
Treasury	.....	U.S. Department of the Treasury
TRIP		Terrorism Risk Insurance Program
UK		United Kingdom
WPIP		OECD's Working Party on Insurance and Pensions

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I. INTRODUCTION

This Report is submitted by the Federal Insurance Office (FIO) of the U.S. Department of the Treasury (Treasury) pursuant to Section 502(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which requires the annual submission by FIO of a report to the President, the Committee on Financial Services of the House of Representatives, and the Committee on Banking, Housing, and Urban Affairs of the Senate, “on the insurance industry and any other information as deemed relevant by the [FIO] Director or requested by such Committees.”¹

A. The Structure of this Report and Summary of Findings

This Report begins with an overview of FIO’s statutory responsibilities, then summarizes certain of FIO’s key activities. Section II focuses on the aggregate 2025 financial results of life & health (L&H) and property & casualty (P&C) insurers licensed in the United States. It presents a discussion and analysis of the insurance industry’s financial performance in calendar year 2025 and its financial condition as of December 31, 2025. It also includes a discussion of capital markets activity, alternative risk transfer, and an overview and outlook regarding the international insurance market. Section III concludes the Report with certain key findings and anticipated areas of focus for FIO in the coming year.

Financial Performance Overview: The U.S. insurance industry—meaning the L&H and P&C insurance sectors—continued to grow in 2025, although at a slower rate overall than in prior years. Direct premiums written reached a new record level (\$2.2 trillion for the U.S. insurance industry), with an accompanying increase in surplus.² Generally higher interest rates that continued over 2025 allowed insurers to invest new money and reinvest proceeds from maturities and sales at higher yields, leading to further gains in net investment income. As a result of profitable operations, the insurance industry’s surplus position increased, enhancing its financial flexibility. Indices of L&H and P&C stocks underperformed the S&P 500. Despite stable revenue growth in the L&H and P&C sectors, market rotation into technology and AI enriched the S&P 500’s performance over industry stocks.

L&H Sector: For the L&H sector, 2025 direct premiums written saw slower growth in life insurance and annuities, and contraction in accident and health (A&H) business, as compared to 2024. Savings products like registered index-linked annuities (RILAs) continued to experience strong consumer demand. Net ceded reinsurance in 2025 increased compared to 2024 and continued to see increasing amounts ceded to offshore jurisdictions. A significant positive swing in the reinsurance allowance drove an increase in pre-tax operating income. As would be expected in a year when interest rates were relatively stable to slightly lower, surrender activity was essentially flat, and despite additions to reserves, contributed to the increase in operating income. Capital markets conditions allowed for a

¹ Federal Insurance Office Act of 2010 (FIO Act), 31 U.S.C. § 313(n)(2).

² In this Report, all references to “the insurance industry” mean the combined U.S. L&H and P&C insurance sectors. Here, the direct premiums written calculation excludes L&H insurer deposits as well as Health insurers. “Health insurers” are companies licensed solely to write health insurance or as health maintenance organizations. Unlike prior FIO annual reports, this Report does not include selected aggregate results for U.S. Health insurers.

sound increase in net investment income and flat realized capital losses compared to 2024. The L&H sector's capital and surplus continued to grow in 2025 at a faster pace compared to relatively low growth in 2024.

P&C Sector: For 2025, P&C sector direct premiums written reached a new record level (\$1.1 trillion) despite slower growth following three consecutive years of a 10 percent or greater annual increase. Gains in both personal lines (e.g., private passenger auto liability and auto physical damage) and commercial lines (e.g., commercial auto liability and other liability) were driven by general growth in the domestic economy but dampened by normalizing premium rates. Lower estimated insured catastrophic losses and lower auto loss severity enabled the sector to experience a sharp gain in underwriting profit and higher pre-tax operating income. Net income declined due to lower net realized capital gains.

Capital Markets: The insurance industry continued to access the capital markets to fund growth and/or provide balance sheet relief in 2025. Debt was again the primary funding source, despite the higher interest rate environment. Alternative risk transfer mechanisms remained in high demand as well.

International: At the end of 2025, the United States accounted for a 44.4 percent share of the nearly \$7.2 trillion global direct premiums and continued to be the world's largest single-country insurance market.³ Globally, direct premiums written increased by 7.4 percent (in nominal terms). Growth in life business in emerging economies in 2025 outpaced gains in advanced economies for the fourth consecutive year. Growth in non-life business in emerging economies in 2025 was slower than growth in advanced economies for the first time in the last four years.

B. Federal Insurance Office Overview and Activities

1. FIO Overview

In the United States, the primary regulators of the business of insurance are the 50 states, the District of Columbia, and the five U.S. territories.

The federal government also plays an important role in the insurance industry.⁴ Title V of the Dodd-Frank Act established FIO within Treasury.⁵ In addition to advising the Secretary of the Treasury (Secretary) on major domestic and prudential international insurance policy issues and having its Director serve as a non-voting member of the Financial Stability Oversight Council (FSOC), FIO is authorized to, among other things:

³ Unlike in other sections of the Report, the figures for the international insurance market include Health insurance.

⁴ The federal government also may have a significant impact on insurers through, among other things, the regulation of financial products or markets that include insurance (e.g., regulation of securities by the U.S. Securities and Exchange Commission), the taxation of insurers and their products, and regulation of benefit plans by the Department of Labor's Employee Benefits Security Administration.

⁵ FIO Act, 31 U.S.C. § 313(a). Title V also designates the Secretary as advisor to the President on "major domestic and international prudential policy issues in connection with all lines of insurance except health insurance." *Id.* at § 321(a)(9).

- monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system;
- monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance;
- recommend to FSOC that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the Board of Governors of the Federal Reserve System (Federal Reserve);
- assist the Secretary in the administration of the Terrorism Risk Insurance Program (TRIP), as established in Treasury under the Terrorism Risk Insurance Act of 2002, as amended;
- coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the International Association of Insurance Supervisors (IAIS) and assisting the Secretary in negotiating covered agreements;
- determine whether state insurance measures are preempted by covered agreements;
- consult with the states (including state insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance; and
- perform such other related duties and authorities as may be assigned to FIO by the Secretary.⁶

In addition, before the Secretary may make a determination as to whether to seek the appointment of the Federal Deposit Insurance Corporation as receiver of an insurer under Title II of the Dodd-Frank Act, the Secretary must first receive a written recommendation from the FIO Director and the Federal Reserve.⁷ Also, FIO and the Federal Reserve coordinate on the performance of annual analyses of nonbank financial companies supervised by the Federal Reserve, particularly with respect to stress testing, to evaluate whether such companies have the capital, on a consolidated basis, necessary to absorb losses as a result of adverse economic conditions.⁸

⁶ FIO Act, 31 U.S.C. § 313(c)(1).

⁷ Dodd-Frank Act, 12 U.S.C. § 5383(a)(1)(C).

⁸ 12 U.S.C. § 5365(i)(1)(A).

2. FIO Activities

FIO released its previous *Annual Report on the Insurance Industry* on September 30, 2025, together with its annual Preemption Report.⁹ Certain of FIO's activities since the 2025 *Annual Report* are summarized below.

Domestic Activities

As required by statute, FIO has continued to administer TRIP on the Secretary's behalf. Among other things, on December 18, 2025, Treasury issued a Federal Register notice advising that TRIP's Insurance Marketplace Aggregate Retention Amount for calendar year 2026 would be \$58,673,180,666.¹⁰ FIO also conducted its annual TRIP data call, as required by statute, for which all insurers participating in TRIP were required to submit information for the reporting period from January 1, 2025 to December 31, 2025, subject to certain reporting exemptions.¹¹ The TRIP data call—together with responses to a public request for comments on the effectiveness of TRIP¹²—helped inform FIO's *Report on the Effectiveness of the Terrorism Risk Insurance Program*, published on June 30, 2026.¹³

FIO's cyber risk work included analyses of the interaction between cyber-related terrorism losses and TRIP, as well as consideration of the potential impact of catastrophic cyber events upon policyholders and the insurance sector. FIO included a new modeled-loss scenario in the 2026 TRIP Data Call to support analyses of potential TRIP exposure arising from certain hypothetical cyber-hybrid terrorism loss events.¹⁴ This scenario was discussed in the 2026 TRIP Effectiveness Report and aids FIO's evaluation of how a cascading hybrid-loss event could impact TRIP and the insurance sector. FIO continues to assess the cyber insurance market and evolving cyber threats that may create insurance protection gaps or affect insurance market capacity.

⁹ FIO, *Annual Report on the Insurance Industry* (2025), <https://home.treasury.gov/system/files/311/Final%20FIO%202025%20Annual%20Report.pdf> (2025 *Annual Report*); FIO, 2025 *Preemption Report* (2025), <https://home.treasury.gov/system/files/311/2025%20FIO%20Preemption%20Report.pdf> (reporting no action taken regarding preemption of inconsistent state measures in fiscal year ending September 30, 2025).

¹⁰ IMARA Calculation for Calendar Year 2026 Under the Terrorism Risk Insurance Program, 90 Fed. Reg. 59,324 (December 18, 2025).

¹¹ See, e.g., 2026 Terrorism Risk Insurance Program Data Call, 91 Fed. Reg. 14,630 (March 25, 2026).

¹² 2026 Report on the Effectiveness of the Terrorism Risk Insurance Program, 91 Fed. Reg. 14,632 (March 25, 2026).

¹³ FIO, *Report on the Effectiveness of the Terrorism Risk Insurance Program* (2026), <https://home.treasury.gov/system/files/311/2026ProgramEffectivenessReportFINAL.pdf>.

¹⁴ See, e.g., Terrorism Risk Insurance Program 2026 Data Call: Insurer (Non-Small) Groups of Companies (OMB No. 1505-0257), 13-14, available under "Data Call Instructions and Forms" at "Annual Data Collection," Treasury, <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/terrorism-risk-insurance-program/annual-data-collection>.

FIO continued to engage with the National Science Foundation on the Industry-University Cooperative Research Center (IUCRC) initiative.¹⁵ The IUCRC is intended to bring government, academia, and industry together to improve modeling and underwriting related to terrorism and catastrophic cyber risks. This effort is intended to assist the insurance industry in pricing these risks, supporting potential reinsurance and capital markets solutions, and providing information on how terrorism and catastrophic cyber risks should be evaluated for government-backed programs.

FIO also continued to monitor how artificial intelligence (AI) and other emerging technologies are affecting the insurance market, operations, and supervision. As discussed in FIO's 2025 *Annual Report*, AI use cases in the insurance sector include potential applications in underwriting, claims management, fraud detection, pricing, marketing, and risk management.¹⁶ FIO also continues to monitor AI-related insurance supervision at the state level, including the implementation of the Model Bulletin on the Use of Artificial Intelligence Systems by Insurers adopted by the National Association of Insurance Commissioners (NAIC), the launch of the NAIC's AI Systems Evaluation Tool pilot project, which was being piloted by 12 participating states as of March 2026, and other NAIC activities related to AI.¹⁷

In addition, FIO continued to provide insurance-sector expertise to FSOC. The FIO Director attended FSOC principals' meetings, while FIO staff contributed to the FSOC 2025 Annual Report and continue to participate in FSOC staff-level committees.¹⁸

In March 2026, Treasury reestablished the Federal Advisory Committee on Insurance and solicited expressions of interest in membership.¹⁹ The reestablished Federal Advisory Committee on Insurance will provide advice and recommendations to FIO regarding the office's implementation of its duties and authorities.

On May 7, 2026, FIO coordinated and participated in Secretary Bessent's meeting with several state insurance commissioners and leadership of the NAIC to discuss the U.S. life insurance sector.²⁰ Meeting topics included recent developments in private credit markets, the movement

¹⁵ NSF, Dear Colleague Letter: IUCRC Proposals for Research and Thought Leadership on Insurance Risk Modeling and Underwriting Related to Terrorism and Catastrophic Cyber Risks: A Joint NSF and U.S. Department of the Treasury Federal Insurance Office Call (April 24, 2024), https://www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf24082.

¹⁶ FIO, 2025 *Annual Report*, Box 1.

¹⁷ See, e.g., NAIC, NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers (adopted by Executive (EX) Committee and Plenary December 4, 2023), https://content.naic.org/sites/default/files/inline-files/2023-12-4%20Model%20Bulletin_Adopted_0.pdf; "Artificial Intelligence," NAIC, last updated April 3, 2026, <https://content.naic.org/insurance-topics/artificial-intelligence>.

¹⁸ See, e.g., FSOC, 2025 *Annual Report* (2025), <https://home.treasury.gov/system/files/261/FSOC2025AnnualReport.pdf>.

¹⁹ Reestablishment of the Federal Advisory Committee on Insurance, 91 Fed. Reg. 11,615 (March 10, 2026); Request for Expressions of Interest in Membership on the Federal Insurance Office's Federal Advisory Committee on Insurance, 91 Fed. Reg. 14,633 (March 25, 2026).

²⁰ Treasury, "U.S. Department of the Treasury Hosts Convening with State Insurance Commissioners on Private Credit and the Insurance Sector," news release, May 7, 2026, <https://home.treasury.gov/news/press-releases/sb0493>.

of U.S. life and annuity reserves to offshore jurisdictions, and related state and NAIC regulatory activities. Treasury and state insurance commissioners agreed on continuing collaborative engagement on matters including risk-based capital (RBC), private letter ratings (PLRs), offshore reinsurance jurisdictions, and oversight of evolving business models. FIO is continuing to engage with stakeholders on these topics and assess their potential impact on the U.S. insurance sector (see, e.g., [Box 2](#)).

International Activities

Since the publication of the *2025 Annual Report*, FIO has continued to advance U.S. insurance priorities in several international forums. Across these efforts, FIO worked with U.S. state insurance regulators, the NAIC, the Federal Reserve, and other U.S. government counterparts to promote U.S. interests.

FIO continued to fulfill its statutory responsibility to represent the United States in the IAIS, working collaboratively with state regulators, the NAIC, and the Federal Reserve as part of “Team USA.” As the IAIS implemented its new committee-level organizational structure and Strategic Plan for 2025-2029, FIO continued to actively engage with IAIS members and leadership through the IAIS Executive Committee as well as other committees, working groups, task forces, and forums.²¹ FIO’s work at the IAIS included addressing matters such as group capital and solvency, macroprudential supervision, resolution, cybersecurity and other operational resilience issues, AI, financial crimes, private credit, reinsurance, and insurance protection gaps for natural catastrophe risks.²² In particular, FIO and Team USA continued to monitor and engage with IAIS members on implementation of the Insurance Capital Standard (ICS) and finalizing the Aggregation Method for U.S.-domiciled internationally active insurance groups.²³

²¹ See, e.g., IAIS, “IAIS Announces New Organisational Structure and Leadership at the Committee Level,” news release, November 17, 2025, <https://www.iais.org/2025/11/iais-announces-new-organisational-structure-and-leadership-at-the-committee-level/>; “Organisational Structure,” IAIS, <https://www.iais.org/about-the-iais/organisational-structure/>; IAIS, *Strategic Plan 2025-2029* (2024), <https://www.iais.org/uploads/2025/01/Strategic-Plan-2025-2029.pdf>; IAIS, “IAIS Publishes Its Roadmap 2026-2027,” news release, January 19, 2026, <https://www.iais.org/2026/01/iais-publishes-its-roadmap-2026-2027/>.

²² See, e.g., IAIS, *Issues Paper on Structural Shifts in the Life Insurance Sector* (November 2025), <https://www.iais.org/uploads/2025/11/Issues-Paper-on-structural-shifts-in-the-life-insurance-sector.pdf>; IAIS, *Application Paper on Operational Resilience Objectives and Toolkit* (February 2026), <https://www.iais.org/uploads/2026/02/Application-Paper-on-operational-resilience-objectives-and-toolkit.pdf>; IAIS, *Application Paper on Recovery Planning* (July 2026), <https://www.iais.org/uploads/2026/07/Application-Paper-on-recovery-planning.pdf>; IAIS, *Application Paper on Resolution Powers, Preparation and Plans* (July 2026), <https://www.iais.org/uploads/2026/07/Application-Paper-on-resolution-powers-preparation-and-plans.pdf>.

²³ In 2024, the IAIS approved the ICS as a prescribed capital requirement for internationally active insurance groups and through its assessment, determined that the U.S.-developed Aggregation Method would provide comparable outcomes to the ICS and, therefore, could serve as a basis for ICS implementation for U.S. internationally active insurance groups. See, e.g., IAIS, “IAIS Executive Committee Approves Insurance Capital Standard for Adoption by IAIS Members and Concludes Aggregation Method Comparability Assessment,” news release, November 14,

In November 2025, the Financial Stability Board reaffirmed it would rely on the IAIS Holistic Framework assessments as the main international tool for monitoring risk in insurance markets.²⁴ FIO participated in the IAIS Global Monitoring Exercise and related financial stability efforts under the Holistic Framework for the assessment and mitigation of systemic risks.²⁵

In 2026, FIO's Director became co-chair of the Working Party on Insurance and Pensions (WPIP) at the Organisation for Economic Co-operation and Development (OECD). The WPIP promotes fair, efficient, open and sound market-oriented insurance and pensions systems, based on high levels of transparency, confidence, and integrity. Through FIO's participation in the WPIP over the past several years, FIO has engaged in the OECD's work on insurance markets, pensions, protection gaps, resilience, and related policy and supervisory issues.²⁶ FIO continues to contribute to OECD's insurance-sector analysis, including work related to global insurance market trends.²⁷

FIO also engaged with international counterparts in several bilateral engagements. Notably, FIO executed a memorandum of understanding (MOU) with the Bermuda Monetary Authority (BMA) in July 2026. This MOU will deepen FIO's engagement with the BMA through increased cooperation and information sharing. The Bermuda market plays a significant role in the U.S. insurance sector, including for asset-intensive reinsurance (AIR) and P&C insurance. Under the MOU, FIO will continue to monitor updates to BMA's regulatory and supervisory framework and initiate more regular engagements between FIO and the BMA. In particular, FIO will continue to monitor BMA developments related to long-term insurance, reserve valuation and capital requirements, investment standards, group supervision, affiliate reinsurance transactions, public disclosures, and recovery and resolution planning.

FIO also engaged with the Cayman Islands Monetary Authority (CIMA), given the growth of cross-border reinsurance activity in the Cayman Islands involving U.S. life insurers and annuity business. In 2025 and 2026, FIO monitored the Cayman Islands insurance market's continued growth as well as developments in CIMA's regulatory and supervisory framework. On

2024, <https://www.iais.org/2024/11/iais-executive-committee-approves-insurance-capital-standard-for-adoption-by-iais-members-and-concludes-aggregation-method-comparability-assessment/>.

²⁴ Financial Stability Board, "The FSB Reaffirms Its Decision to Use IAIS Holistic Framework Assessments Instead of an Annual Identification of Global Systemically Important Insurers," news release, November 25, 2025, <https://www.fsb.org/2025/11/the-fsb-reaffirms-its-decision-to-use-iais-holistic-framework-assessments-instead-of-an-annual-identification-of-global-systemically-important-insurers/>.

²⁵ See, e.g., IAIS, "IAIS Publishes Updated Global Monitoring Exercise (GME) Document," news release, November 25, 2025, <https://www.iais.org/2025/11/iais-publishes-gme-document-2025/>; IAIS, "IAIS Concludes Multi-Year Cycle of Holistic Framework Implementation Assessments," news release, March 31, 2026, <https://www.iais.org/2026/03/iais-concludes-multi-year-cycle-of-holistic-framework-implementation-assessments/>; "Global Insurance Market Report (GIMAR)," IAIS, <https://www.iais.org/activities-topics/financial-stability/gimar/>.

²⁶ See, e.g., OECD, *Financial Protection Against Catastrophic Risks* (March 2026), https://www.oecd.org/en/publications/financial-protection-against-catastrophic-risks_32a3acd7-en.html.

²⁷ See, e.g., "Global Insurance Market Trends," OECD, https://www.oecd.org/en/publications/global-insurance-market-trends_59546926-en.html (providing links to 2025 and past reports); OECD, *Global Insurance Market Trends 2025* (2025), https://www.oecd.org/en/publications/global-insurance-market-trends-2025_0d11ecf4-en/full-report.html.

September 8, 2026, FIO and CIMA executed a bilateral statement of cooperation. FIO will continue its efforts to increase engagement with CIMA.

FIO continued to participate in the EU-U.S. Insurance Dialogue Project, together with the European Commission, European Insurance and Occupational Pensions Authority (EIOPA), and U.S. state insurance regulators. The Project supports mutual understanding and regulatory cooperation between the United States and the European Union (EU).

FIO continued to engage in the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP), an organization comprised of sovereign-backed terrorism risk insurance and reinsurance programs. IFTRIP serves as a forum for sharing best practices, developing thought leadership, and discussing areas of common interest in terrorism risk coverage. The United States served as the Chair of the organization until January 2026, and FIO continues to take a leadership role in organizational initiatives. The 2026 IFTRIP conference was held in March 2026, with the theme of “Terrorism Risk and Resilience for the Pacific Rim in an Unpredictable Era.” FIO contributed to the conference by highlighting terrorism risk issues relevant to the United States and TRIP.

Finally, FIO continued work related to the covered agreements.²⁸ On May 14, 2026, FIO participated in the fourth Joint Committee meeting with the United Kingdom (UK) under the U.S.-UK Covered Agreement. During this meeting, the United States and UK provided updates regarding the implementation and administration of the U.S.-UK Covered Agreement, reaffirmed its importance, and concurred that the Agreement is functioning well.

²⁸ See, e.g., “Covered Agreements,” Treasury, <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/covered-agreements>.

II. INSURANCE INDUSTRY FINANCIAL OVERVIEW AND OUTLOOK

A. Domestic Insurance Marketplace Overview and Outlook

The financial analysis in this section, consistent with prior FIO annual reports, focuses on the U.S. insurance industry's financial performance and condition through December 31, 2025, the latest date for which detailed, comprehensive, and definitive data is available.²⁹ As in 2025, this year the analysis of the financial performance and condition of the L&H sector encompasses only the last five years (2021–2025), while analysis of the financial performance and condition of the P&C sector continues to reflect the past 10 years (2016–2025).³⁰

Insurers continued to adjust to the higher interest rate environment by recalibrating pricing strategies, managing unrealized losses, and moving their investment portfolios to higher-yielding assets. Life insurers continued to increase asset-intensive businesses, while P&C insurers addressed increased reserve volatility due to rising costs.

Generally, the U.S. insurance industry saw strong performance in 2025, marked by growth and continued sound financial condition. L&H capital and surplus grew for the third consecutive year in 2025, albeit not at as fast a rate as assets increased. Asset growth has outpaced surplus growth for the past three years, driven largely by increased asset-intensive annuity business, contributing to a shrinking surplus cushion with which to absorb unexpected losses. The effects of sustained higher interest rates contributed to significant surrender activity, although the increase in surrenders was negligible (up 0.6 percent) in 2025 compared to 2024, following a 16.3 percent increase in 2024. On the positive side, the higher interest rates contributed to a 6.8 percent increase in net investment income. For the P&C sector, 4.8 percent growth in direct premiums written, a significant increase in underwriting profit, record net investment income, and net realized and unrealized capital gains contributed to P&C policyholder surplus growth of 11.7 percent. Finally, increased complexity and greater illiquidity in the investment portfolios of both sectors continued in 2025 even in an environment of higher interest rates.

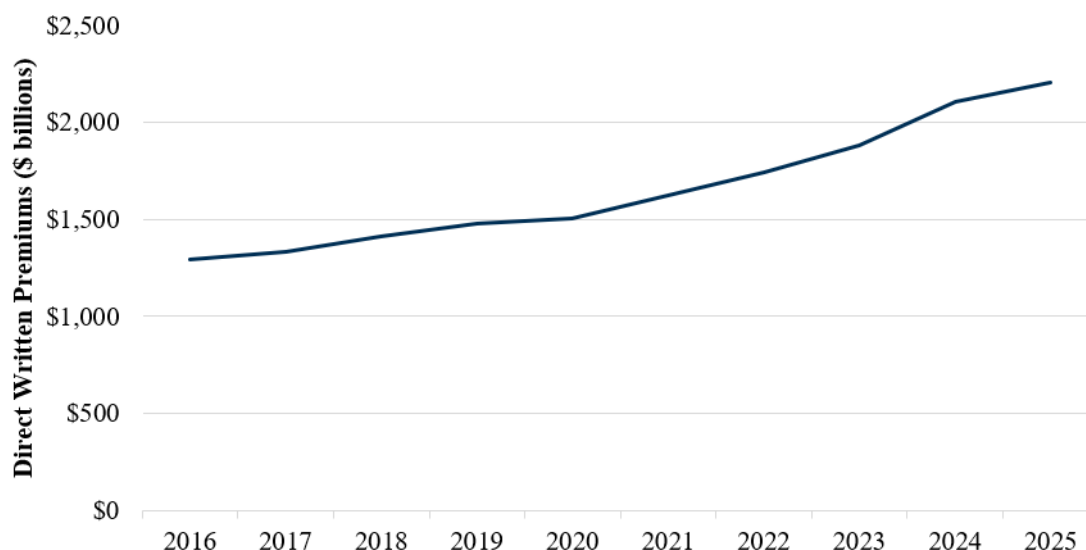
The growth of the L&H and P&C sectors in 2025 is illustrated in Figure 1, showing direct premiums written. Direct premiums written are the amount policyholders paid for insurance

²⁹ Except as otherwise indicated, data cited in this section of the Report are as of December 31, 2025, as derived from S&P Global Market Intelligence (S&P Global) on May 12, 2026. This data is presented on a statutory accounting basis. S&P Global continuously updates its data for corrections in filings. Because the 2024 data in this Report are based on updated data available as of May 12, 2026, they may be different in some respects from corresponding figures reported in FIO's *2025 Annual Report*. Due to certain conventions used by S&P Global for aggregation of industry data, some columns in the accompanying tables may not sum to the totals that have been separately accumulated by S&P Global from individual legal entity data. Some figures may not add to 100 percent due to rounding.

³⁰ The shortening of the reporting period from ten to five years for the L&H sector is due to the NAIC's 2019 combination of the Annual Statement reporting for fraternal benefit societies and L&H insurers into one consistent form; 2023 was the first reporting year for which S&P Global reflected the combined Annual Statements, having allowed for the development and presentation of five years of historical data. Years prior to 2019 have not been adjusted to reflect this change in reporting and thus are not comparable to the data from 2019 to 2025. This reporting change had no impact on financial reporting for the P&C sector.

before the effects of reinsurance and are a measure of sales activity and growth. The U.S. insurance industry has shown positive year-over-year growth in direct premiums written in each of the past 10 years. In 2025, the combined total direct premiums written in the L&H and P&C sectors was \$2.2 trillion, which represented a 4.5 percent annual increase.

Figure 1: Total Direct Premiums Written in L&H and P&C Sectors



Source: S&P Global

Note: L&H amounts exclude deposit-type contracts.³¹ Health-only insurers are not included.

1. Financial Performance and Condition Overview of U.S. Insurance Industry

This section addresses the financial performance and condition of the U.S. insurance industry, including the 712 L&H insurers and 2,701 P&C insurers licensed in the United States during 2025.³² Consistent with the detailed analyses that follow, this section focuses on the L&H and P&C sectors and does not include companies licensed solely as Health insurers or Health Maintenance Organizations. Insurers in the L&H sector offer products in two segments: (1) life insurance and annuities, which generally protect against the risk of financial loss associated with an individual's death and provide income streams for retirement, respectively; and (2) A&H products, which cover expenses for health and long-term care or provide income in the event of disability. Insurers in the P&C sector offer products that generally protect against the risk of

³¹ Deposit-type contracts generally do not subject the issuer to risks arising from policyholder mortality or morbidity. Deposit-type contracts include products such as funding agreements, guaranteed investment contracts, and certain annuities that lack insurance risk. See, e.g., Tim Zawacki & Husain Rupawala, "Surge in Deposit-Type Contracts Marks Otherwise Mixed Q3 for US Life Industry," *S&P Global*, December 3, 2025, <https://www.spglobal.com/market-intelligence/en/news-insights/research/2025/12/surge-in-deposit-type-contracts-marks-otherwise-mixed-q3-for-us-life-industry>. Deposit-type contracts are excluded here because of the lack of insurance risk.

³² See S&P Global.

financial loss associated with damage to property or exposure to liability for individuals and families (personal lines) or for businesses (commercial lines).

Combined direct premiums written for the two sectors in 2025 were approximately \$2.2 trillion. Direct premiums written for the L&H sector were just under \$1.1 trillion in 2025, constituting 49.5 percent of direct premiums written for the combined L&H and P&C sectors.³³ For the P&C sector, direct premiums written were just over \$1.1 trillion, which was 50.5 percent of direct premiums written for the two sectors.

At the end of 2025, the L&H sector held approximately \$9.9 trillion in total assets (including \$3.5 trillion held in separate accounts) and the P&C sector held approximately \$3.2 trillion. As of December 31, 2025, capital and surplus in the L&H sector stood at \$552.2 billion; the P&C sector reported policyholders' surplus of approximately \$1.2 trillion.

Figure 2 and Figure 3 show the 10 largest L&H insurance groups measured by direct premiums written, with the market share for life insurance (including annuities and other deposit-type contracts) and for A&H lines of business, respectively. Premiums shown in Figure 2 aggregate all L&H life insurance premiums, annuity considerations, and deposit-type contracts, and other considerations, and all geographies of the United States. Premiums shown in Figure 3 aggregate all A&H direct premiums and all geographies of the United States. The data presented in Figure 2 and Figure 3 for life insurance and A&H business, and in the comparable figures for other lines of business, are aggregated at a group level from filings made with state insurance regulators by individual legal entity insurers writing those lines. For example, premiums shown for MetLife include premiums written and reported by all of its life insurance subsidiaries (reporting legal entities, not including onshore captive reinsurers) in the United States but not business written by affiliated entities in non-U.S. jurisdictions.

Figure 2: L&H Insurance Groups by 2025 U.S. Life Insurance Lines Direct Premiums Written, Annuity Considerations, and Deposit-Type Contracts

2025 Rank	Insurance Group	2025 Direct Premiums, Considerations, and Deposits (\$000)	Share of Total (%)
1	MetLife	\$ 115,645,284	9.24
2	Equitable Holdings	95,375,296	7.62
3	New York Life	76,275,377	6.10
4	Athene (U.S. only)	63,239,482	5.05
5	Prudential Financial	47,752,583	3.82
6	MassMutual	45,000,671	3.60
7	Nationwide	43,048,034	3.44
8	Pacific Life	42,016,134	3.36
9	Corebridge Financial	39,138,048	3.13
10	Western & Southern Financial	38,783,289	3.10
Combined Top 10		\$ 606,274,198	48.45

³³ L&H sector direct premiums written exclude deposit-type contracts due to their lack of insurance risk.

Source: S&P Global (includes Life Insurance (No Annuity), Annuity Considerations, Deposit-Type Contracts (State Page), Other Considerations (State Page))

Figure 3: L&H Insurance Groups by 2025 U.S. A&H Lines Direct Premiums Written

2025 Rank	Insurance Group	2025 Direct Premiums Written (\$000)	Share of Total (%)
1	CVS Health Corp.	\$ 60,999,115	26.02
2	UnitedHealth Group	60,618,803	25.86
3	MetLife	11,482,707	4.90
4	Unum Group	7,158,879	3.05
5	Mutual of Omaha	6,721,738	2.87
6	Aflac	5,479,478	2.34
7	Guardian	5,464,588	2.33
8	SunLife Financial	4,881,667	2.08
9	Tokio Marine	4,258,902	1.82
10	Hartford Life and Accident Ins Co	4,056,212	1.73
Combined Top 10		\$ 171,122,089	73.00

Source: S&P Global

For life insurance and annuity writers, the aggregate market shares of the top 10 firms continued to decrease, dropping by almost one-half of a percentage point in 2025 to 48.5 percent from 48.9 percent.³⁴ MetLife and Equitable Holdings remained the largest and second-largest writers of life insurance and annuities, respectively. MetLife gained market share while Equitable Holdings lost a small amount. There was significant movement among the third through tenth-largest writers over the year. New York Life (no. 3) and Athene (U.S. only) (no. 4) each gained one spot, passing Prudential Financial (no. 5), which dropped two places. MassMutual remained the sixth-largest writer of life insurance and annuities. Nationwide (no. 7) moved up one spot and Pacific Life (no. 8) rose two places, both passing Corebridge Financial (no. 9). Western & Southern Financial (no. 10) dropped one place.

Figure 3 shows A&H premiums written by insurers authorized to offer both life and health insurance; it excludes premiums written by insurers that are authorized to offer only health insurance. For example, the data presented in Figure 3 for UnitedHealth Group does not reflect its total health insurance premiums on a consolidated basis, but rather only those premiums written by UnitedHealth subsidiaries licensed to offer both life and health insurance. The aggregate market share of the top 10 writers of A&H lines increased by over three percentage points from 2024 in response to some market consolidation. CVS Health and UnitedHealth Group remained the largest and second-largest writers of A&H lines in 2025, respectively.

³⁴ As noted in footnote 30, beginning in 2019, the NAIC merged life/health and fraternal annual statement filings into one statement type, and beginning with 2023 data, S&P Global now presents the consolidated financial statements. Fraternal insurers, or fraternal benefits societies, are non-profit, member-owned organizations offering life, health, and related insurance products to their members. According to S&P Global, fraternal insurers totaled 61 and wrote \$8.9 billion of premium and annuities through the third quarter 2023; since the filings have been combined, there is no longer a distinction that is quantifiable. Market share measures for prior years may not be directly comparable.

Cigna, formerly the third-largest A&H writer, dropped out of the top ten with its sale of its Medicaid business to Health Care Service Corporation in March 2025, and was replaced by MetLife. Unum Group remained in fourth place, while Mutual of Omaha (no. 5) moved up one spot. Aflac (no. 6) gained three places, and Guardian remained in seventh place. SunLife Financial and Tokio Marine entered the top ten in eighth and ninth places, respectively, while Hartford Life and Accident Insurance Co. dropped two spots to tenth.

P&C insurers offer a variety of products, generally categorized as either personal lines or commercial lines.³⁵ Figure 4 reports P&C market share information on a combined personal and commercial lines basis, while Figure 5 and Figure 6 break the P&C sector into personal and commercial lines of business, respectively. On a combined basis, there was little year-over-year change in the composition and aggregate market share of the top 10 P&C groups in comparison to 2024, although Travelers rose to fifth place while Liberty Mutual dropped to sixth. For personal lines, the composition and aggregate market share of the top 10 P&C writers were little changed from 2024, although Nationwide dropped out of the top 10 and was replaced at tenth place by Auto-Owners Insurance. Similarly, the top 10 writers of commercial lines were little changed, with a slightly less than one percentage point decline in aggregate market share.

Figure 4: P&C Insurance Groups by 2025 U.S. Combined Lines Direct Premiums Written

2025 Rank	Insurance Group	2025 Direct Premiums Written (\$000)	Share of Total (%)
1	State Farm	\$ 115,149,861	10.35
2	Progressive	84,195,656	7.56
3	Berkshire Hathaway	64,514,368	5.80
4	Allstate Corp	59,467,366	5.34
5	Travelers	43,181,564	3.88
6	Liberty Mutual	42,346,468	3.80
7	USAA	38,543,461	3.46
8	Chubb	35,476,851	3.19
9	Farmers Insurance	29,586,855	2.66
10	Zurich	18,896,036	1.70
Combined Top 10		\$ 531,358,486	47.74

Source: S&P Global (includes all lines of business)

³⁵ P&C sector total direct premiums written may include small amounts of A&H business and other adjustments.

Figure 5: P&C Insurance Groups by 2025 U.S. Personal Lines Direct Premiums Written

2025 Rank	Insurance Group	2025 Direct Premiums Written (\$000)	Share of Total (%)
1	State Farm	\$ 104,870,069	18.47
2	Progressive	72,342,134	12.74
3	Allstate	55,484,525	9.77
4	Berkshire Hathaway Inc.	43,182,332	7.61
5	USAA	36,212,442	6.38
6	Farmers Insurance	23,554,596	4.15
7	Liberty Mutual	21,203,757	3.73
8	Travelers	16,082,902	2.83
9	American Family Insurance	15,665,790	2.76
10	Auto-Owners Insurance	9,096,538	1.60
Combined Top 10		\$ 397,695,085	70.04

Source: S&P Global

Figure 6: P&C Insurance Groups by 2025 Commercial Lines Direct Premiums Written

2025 Rank	Insurance Group	2025 Direct Premiums Written (\$000)	Share of Total (%)
1	Chubb	\$ 28,395,728	5.31
2	Travelers	27,098,662	5.07
3	Liberty Mutual	21,069,634	3.94
4	Berkshire Hathaway Inc.	20,063,644	3.75
5	Zurich	18,306,462	3.42
6	AIG	15,196,751	2.84
7	The Hartford	15,015,229	2.81
8	CNA	14,148,829	2.65
9	Progressive	11,847,752	2.21
10	W.R. Berkley	11,018,752	2.06
Combined Top 10		\$ 182,161,443	34.06

Source: S&P Global

2. Life and Health Insurance Sector

a) Financial Performance of L&H Insurance Sector

This section presents additional analysis of the financial performance of the L&H sector in 2025 and then assesses the L&H sector's overall financial condition as of December 31, 2025. As discussed above, the analysis focuses on the last five years due to a reporting change.³⁶

i. L&H Premiums Written, Annuity Considerations, and Deposits

Direct premiums written is a principal measure of the sales activity and growth of an insurer. In 2025, L&H insurers wrote \$1.1 trillion of direct premiums and annuity considerations, an increase of 4.0 percent from the \$1.1 trillion reported in 2024, marking a record high for annual direct premiums written and annuity considerations for this sector. Direct premiums written and annuity considerations have increased in each of the past five years. A 4.0 percent increase in life insurance and 4.2 percent increase in annuities drove growth in 2025, while A&H lines decreased by 5.7 percent. An increase in indexed universal life policy sales drove growth in life insurance premiums.³⁷ Annuity premiums and considerations growth slowed from the significant 14.0 percent growth recorded in 2024 but was bolstered by continued strength in sales of RILAs, aided in part by new entrants in the product space.³⁸ Interest rate cuts and increased competition from other income-oriented products also negatively affected fixed annuity sales.³⁹ Despite slower growth compared to 2024, annuity sales were at record high levels. Deposits increased 19.8 percent over 2025, from \$378.0 billion to \$452.7 billion.⁴⁰

Net ceded reinsurance (total reinsurance ceded less total reinsurance assumed) for the L&H sector increased to \$300.7 billion in 2025 from \$252.8 billion in 2024, reflecting increases in ceded premiums across annuity, life insurance, and A&H lines. Much of the change in ceded premiums was concentrated among a relatively small number of companies. Some attributed the increase to “key transactions in the variable annuity and life insurance segments.”⁴¹

Box 1: International Supervisory Initiatives for Asset-Intensive Reinsurance

Recently, international insurance supervisors in several major markets have made efforts to enhance their supervision of asset-intensive reinsurance transactions (also known as AIR) ceded from their respective jurisdictions. These initiatives include prior-consent requirements, new

³⁶ See footnotes 30 and 34, above.

³⁷ A.M. Best, *Best's Special Report: Annuity Premium Growth Moderated in 2025* (2026), available through <https://news.ambest.com/newscontent.aspx?refnum=274459>.

³⁸ A.M. Best, *Best's Special Report: Annuity Premium Growth Moderated in 2025*, 2.

³⁹ A.M. Best, *Best's Special Report: Annuity Premium Growth Moderated in 2025*, 1.

⁴⁰ NAIC, *US Life and A&H Insurance Industry Analysis Report: 2025 Annual Results* (2026), <https://content.naic.org/sites/default/files/2025-annual-life-industry-commentary.pdf>.

⁴¹ Tim Zawacki & Husain Rupawala, “Big Block Deals Produce Record Ceded Premiums in the US Life Industry in Q3 2025,” *S&P Global*, December 17, 2025, <https://www.spglobal.com/market-intelligence/en/news-insights/research/2025/12/big-block-deals-produce-record-ceded-premiums-in-the-us-life-industry-in-q3-2025>.

retained-asset co-reinsurance structures, stress-testing expectations, counterparty default valuation and capital treatment, and prospective EU-level supervisory work. The increased attention to AIR across several leading insurance markets is notable because it reflects a broader supervisory focus on the potential risks associated with transactions that transfer both insurance and asset-related risks across jurisdictions. Specific examples of these efforts follow.

In July 2025, the Nederlandsche Bank published guidance on AIR contracts that require prior supervisory consent under Dutch law.⁴² According to the guidance, Dutch insurers entering into or amending an AIR contract that allows the reinsurer to hold assets backing Dutch policies outside the European Economic Area, regardless of the reinsurer's domicile, must receive prior supervisory consent. The guidance indicates that the regulator's review will focus on whether the Dutch insurer ceding asset-intensive business can comply with domestic prudent insurance investment requirements.

In October 2025, South Korea's Financial Supervisory Service announced the introduction of a new Discretionary Asset Retained Co-Reinsurance deal structure to support the enhancement of Korean insurers' capital management capabilities and the country's co-reinsurance market.⁴³ This new deal structure, building on prior Korean reinsurance models, attributes the asset management rights and related operational profits and losses to the reinsurer while the cedent retains the underlying assets on its balance sheet. In broad terms, the changes are intended to ensure that the reinsurer's investment results are not counted as part of the Korean cedent's own financial performance or regulatory position.

In 2026, Japan's Financial Services Agency updated its supervisory guidelines to address AIR more explicitly within integrated risk management and stress testing.⁴⁴ The guidance defines AIR and establishes expectations for Japanese insurers to conduct voluntary stress testing tailored to their financial condition, risk profile, and relevant market developments. The guidance indicates that stress tests should incorporate both historical crisis scenarios and forward-looking hypothetical scenarios, including counterparty risks arising from reinsurance transactions. Under the guidance for AIR, Japanese insurers should assess how changes in the economic environment could affect the financial soundness of multiple reinsurers and model severe outcomes, such as multiple recaptures or reinsurer failures.

In April 2026, the United Kingdom's Prudential Regulation Authority (PRA) issued a consultation paper proposing enhanced regulatory treatment for AIR (referred to as funded reinsurance under the UK regime) under the UK's domestic supervisory capital regime for

⁴² "Q&A: Assessment of Asset-Intensive Reinsurance Contracts DNB," DeNederlandscheBank, updated July 8, 2025, <https://www.dnb.nl/en/sector-information/open-book-supervision/open-book-supervision-sectors/insurers/balance-and-capital-pillar-1/assessment-of-asset-intensive-reinsurance-contracts-dnb/>.

⁴³ Jay Ahn & Jae Ho Baek, "Introduction of Asset Retained Co-Reinsurance," *Kim & Chang Newsletter*, January 21, 2026, https://www.kimchang.com/en/insights/detail.kc?idx=33859&sch_section=4.

⁴⁴ "Evaluation Items for Insurance Supervision: Integrated Risk Management System," Japan Financial Services Agency, <https://www.fsa.go.jp/common/law/guide/ins/02c.html>.

insurers.⁴⁵ The PRA stated that the current Solvency UK treatment of funded reinsurance does not appropriately reflect the underlying risks of funded reinsurance transactions and is not aligned with economically similar assets, incentivizing insurers to rely excessively on funded reinsurance to support bulk purchase annuity activity. The PRA proposal would introduce a formal definition of “funded reinsurance” and change how valuation of certain funded-reinsurance-related assets account for counterparty risk. The proposed changes would not apply to arrangements where all covered risks were fully transferred to the reinsurer on or before September 30, 2026. Comments on the proposal were due on July 31, 2026. As of September 14, 2026, the PRA had not issued any further materials in response to the consultation.

EIOPA also expects to issue a statement on asset-intensive reinsurance around the end of 2026.⁴⁶

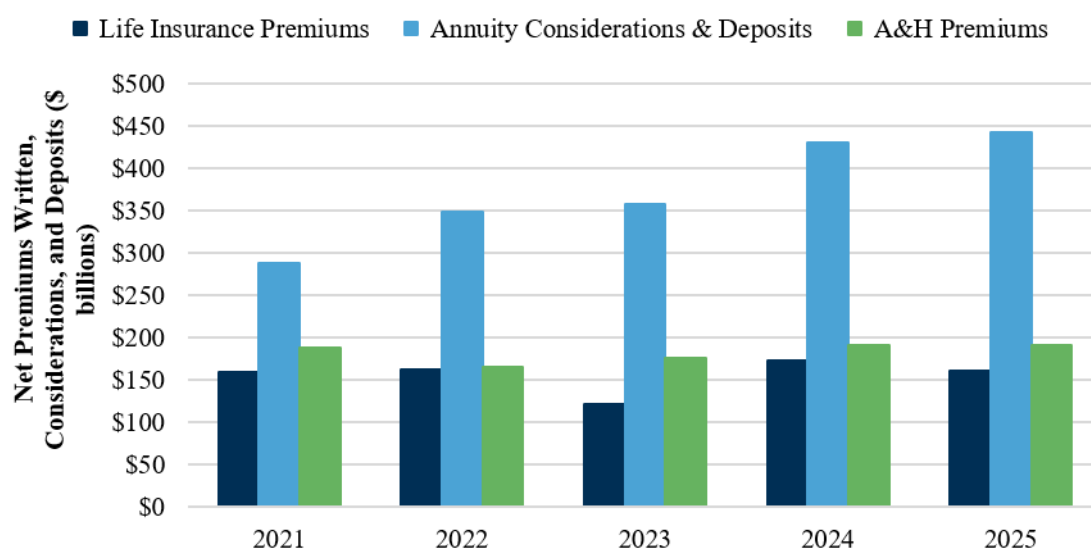
FIO will continue to monitor these developments and engage with stakeholders regarding market developments and the evolving supervisory approaches to AIR and related activities.

Net premiums, considerations, and deposits reflect direct business and assumed reinsurance, less business ceded to reinsurers, and is a basic measure of the amount of risk retained by an insurer. Figure 7 shows net premiums written, considerations, and deposits over the past five years for the L&H sector, while Figure 8 shows the 2025 composition of net premiums, considerations, and deposits.

L&H sector net premiums, considerations, and deposits combined remained essentially unchanged at approximately \$798.0 billion in 2025, as shown in Figure 7. These amounts accounted for approximately 62.5 percent of total L&H sector revenues in 2025, down from approximately 69.9 percent in 2024 and below the five-year average of approximately 65.9 percent. Net annuity considerations and deposits increased 2.7 percent, while net life insurance premiums decreased 7.2 percent and net A&H premiums were essentially unchanged, increasing 0.3 percent.

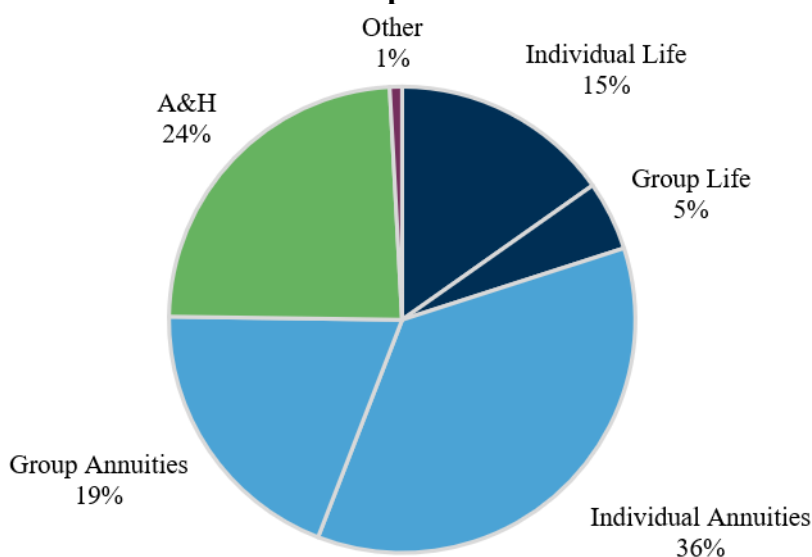
⁴⁵ Bank of England, *CP8/26 – Funded Reinsurance* (April 29, 2026), <https://www.bankofengland.co.uk/prudential-regulation/publication/2026/april/funded-reinsurance-consultation-paper>.

⁴⁶ “Video: EIOPA’s Petra Hielkema on Asset-Intensive Reinsurance and the Rise of Private Credit,” *Insurance ERM*, June 10, 2026, <https://www.insuranceerm.com/content/videos/video-eiopas-petra-hielkema-on-asset-intensive-reinsurance-and-the-rise-of-private-credit.html>.

Figure 7: L&H Sector Net Premiums Written, Considerations, and Deposits, 2021–2025

Source: S&P Global

For 2025, annuity premiums and deposits constituted 55.4 percent of total net premiums written, considerations, and deposits, as shown in Figure 8. Individual and group life insurance premiums accounted for 20.1 percent, while A&H premiums accounted for 24.0 percent and other premiums accounted for the remaining 0.4 percent.

Figure 8: 2025 Composition of L&H Sector Net Premiums, Annuity Considerations, and Deposits

Source: S&P Global

ii. L&H Policyholder Contract Benefits, Surrenders, and Other Expenses

Policyholder contract benefits are claims or other obligations of L&H insurers under life insurance, annuity, and other insurance contracts and policies. Contract surrenders occur when a

policyholder or contract holder elects to cancel a policy or contract before the end of the contractual term and thus receives its accumulated cash value (if any). Surrenders may or may not be accompanied by a fee. Contract benefit payments (i.e., Total Benefit Payments in Figure 9) and contract surrenders (i.e., Total Surrenders in Figure 9) comprise the majority of total expenses for L&H insurers in any given year. The remaining expense components shown in Figure 9 include reserve increases, commissions and other acquisition expenses, general and administrative expenses, insurance taxes, licenses and fees, other expenses, and an offset for transfers to separate accounts. Figure 9 shows the principal components of aggregate L&H sector benefit payments, surrenders, reserve increases, and all other expenses from 2021 to 2025.

Figure 9: L&H Sector Expenses (\$ billions)

	2021	2022	2023	2024	2025
Total Benefit Payments	\$ 343	\$ 306	\$ 325	\$ 350	\$ 365
Total Surrenders	367	353	416	484	487
Total Reserve Increases	89	132	68	107	135
Total Transfers to Separate Accounts	(76)	(51)	(83)	(88)	(96)
Commissions	65	68	77	80	86
General & Administrative Expenses	71	72	77	79	82
Insurance Taxes, Licenses and Fees	10	10	10	11	11
Other Expenses	15	62	36	46	129
Total	\$ 885	\$ 950	\$ 927	\$ 1,069	\$ 1,198

Source: S&P Global

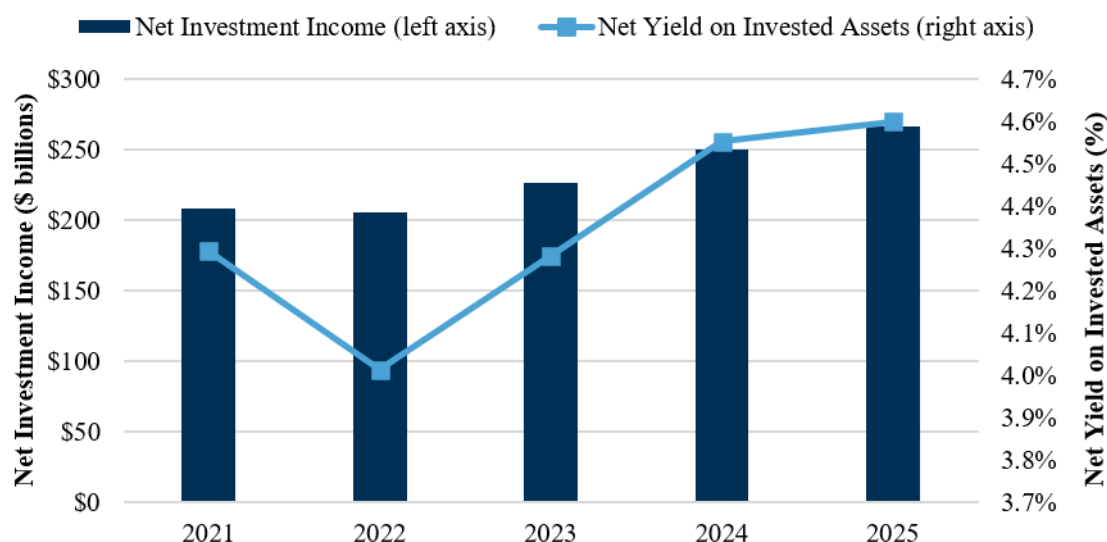
Total L&H sector expenses increased by 12.0 percent in 2025 to approximately \$1.2 trillion from \$1.1 trillion in 2024. Total benefit payments increased by 4.2 percent to \$365.0 billion, while total contract surrenders remained essentially unchanged at \$487.2 billion, following a 16.3 percent increase in 2024. Total reserve increases of 25.5 percent also contributed to the increase in total expenses. The biggest increase in total expenses was an \$82.5 billion jump in “Other Expenses.” This increase was attributable to Aggregate Write-ins for Underwriting Deductions, which is a catch-all for underwriting costs, such as interest due or payable to assuming reinsurers on funds held by the reporting insurer and reserve adjustments on modified coinsurance assumed, that do not fit into standard categories.

iii. L&H Investment Income

Net investment income (gross investment income less investment and other related expenses) of approximately \$266.5 billion constituted about 20.9 percent of aggregate L&H sector revenues in 2025 and increased 6.8 percent from 2024 levels. Yields on new fixed-income investments continued to benefit from interest rates that remained relatively elevated for much of 2025, even as short-term interest rates declined late in the year. The increase in net investment income was driven principally by higher investment income from unaffiliated bonds and mortgage loans, supplemented by higher income from affiliated common stock and improved derivative investment results; income from cash and short-term investments declined. Figure 10 shows L&H sector net investment income from invested assets (excluding net realized gains and losses) and the net investment yield for 2021 to 2025. The net yield on invested assets for 2025

increased to 4.60 percent in 2025 from 4.55 percent in 2024. This was the highest net investment yield during the five-year period shown in Figure 10. The modest increase in net yield was consistent with net investment income growing slightly faster than the sector's invested assets base.

Figure 10: L&H Sector Annual Net Investment Income and Net Yield on Invested Assets



Source: S&P Global

The interest rate environment in 2025 continued to allow insurers to invest new funds and to also reinvest proceeds from maturities and sales at yields generally above much of their existing fixed-income portfolios. Longer term interest rates on 10-year Treasury notes ended approximately 40 basis points lower at the end of 2025 than at the beginning of the year (see Figure 11). At the end of 2025, the yield on 10-year U.S. Treasury notes stood at 4.2 percent, compared with 4.6 percent at the end of 2024. At key maturities, the U.S. Treasury yield curve was positively sloped at the beginning of 2025 and steepened over the year as shorter-term yields declined more than longer-term yields.

Figure 11: Percentage Yield on 10-Year Treasury Notes

Source: S&P Global

iv. L&H Net Income and Return on Equity

Figure 12 presents a summary income statement for the L&H sector. Total revenues in the L&H sector of approximately \$1.3 trillion in 2025 marked an increase of 11.9 percent from the \$1.1 trillion reported in 2024. The increase in revenue was driven primarily by a \$100.6 billion positive swing in the Reserve Allowance (reserve adjustments on ceded reinsurance) in 2025, supplemented by increases in net investment income and other income.⁴⁷ Total expenses increased by 12.0 percent to approximately \$1.2 trillion, while pre-tax operating income increased by 11.6 percent to \$52.6 billion. In 2025, net income increased by 19.1 percent to \$39.7 billion, primarily reflecting higher pre-tax operating income and lower federal income taxes.

L&H sector net realized capital losses remained essentially unchanged at \$6.3 billion, after decreasing by 61.9 percent in 2024 from the elevated \$15.3 billion reported in 2023 (see Figure 12). The relative stability of aggregate losses masked substantial shifts across asset classes: realized losses on derivative instruments decreased from \$5.0 billion to \$1.4 billion, and losses on mortgage loans decreased from \$3.7 billion to \$1.9 billion, while losses on unaffiliated other bonds increased from \$14.7 billion to \$12.2 billion. The NAIC's temporary guidance permitting limited admissions of net negative interest maintenance reserves remained in effect in 2025.⁴⁸

⁴⁷ See, e.g., "Best's Special Report: US Life/Annuity Industry Sees 34% Net Income Increase in 2025," *A.M. Best*, April 1, 2026, <https://news.ambest.com/newscontent.aspx?refnum=273566> (citing cause of increase).

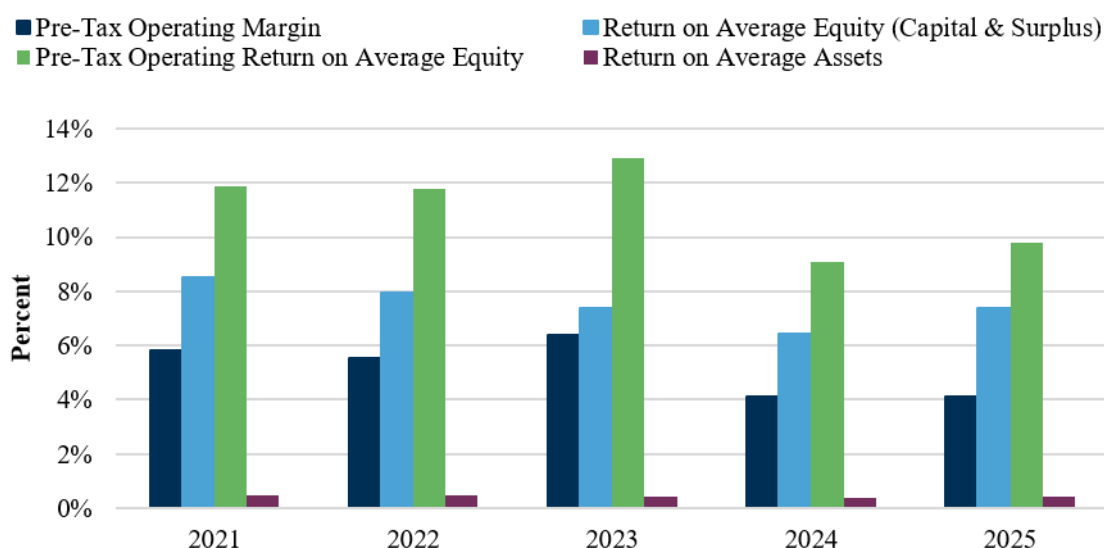
⁴⁸ NAIC, *U.S. Life and A&H Insurance Industry Analysis Report: 2025 Annual Results*.

Figure 12: L&H Sector Summary Income Statement (\$ billions)

	2021	2022	2023	2024	2025
Premiums, Considerations & Deposits	\$ 643	\$ 686	\$ 659	\$ 798	\$ 798
Net Investment Income	208	206	226	250	266
Reinsurance Allowance	8	38	29	(8)	93
Separate Accounts Revenue	42	39	38	36	36
<u>Other Income</u>	<u>58</u>	<u>82</u>	<u>63</u>	<u>66</u>	<u>83</u>
Total Revenue	959	1,051	1,014	1,141	1,277
Total Expenses	885	950	927	1,069	1,198
<u>Policyholder Dividends</u>	<u>18</u>	<u>20</u>	<u>23</u>	<u>24</u>	<u>26</u>
Net Gain from Operations before FIT	56	58	65	47	53
<u>Federal Income Tax</u>	<u>8</u>	<u>8</u>	<u>12</u>	<u>8</u>	<u>7</u>
Net Income before Capital Gains	48	50	52	39	46
Net Realized Capital Gains (Losses)	(8)	(10)	(15)	(6)	(6)
Net Income	\$ 40	\$ 39	\$ 37	\$ 33	\$ 40

Source: S&P Global

Figure 13 shows key operating ratios for the L&H sector. The L&H sector's pre-tax operating margin remained essentially unchanged at 4.12 percent in 2025. The sector's pre-tax operating return on average equity increased to 9.78 percent in 2025 from 9.10 percent in 2024. The return on average equity increased to 7.38 percent in 2025 from 6.43 percent in 2024. The return on average assets likewise increased to 0.41 percent in 2025 from 0.37 percent in 2024. Higher operating income and net income contributed to improvements in the sector's return measures, although the pre-tax operating margin remained essentially unchanged.

Figure 13: L&H Sector Operating Ratios

Source: S&P Global

b) Financial Condition of L&H Insurance Sector

This section presents information on the financial condition of the L&H sector as of December 31, 2025, providing insight into the sector's financial safety and soundness by highlighting certain financial indicators and trends in recent years and their related implications.⁴⁹

i. L&H Capital and Surplus

L&H capital and surplus grew by 5.6 percent in 2025 to \$552.2 billion, due in part to continued operating gains. Year-over-year growth was further impacted by a net unrealized capital gain in 2025 versus a net unrealized capital loss in 2024. Capital levels achieved by the L&H sector from 2021 to 2025 are detailed in Figure 14.

Figure 14: L&H Capital and Surplus Position (\$ billions)

	2021	2022	2023	2024	2025
Capital and Surplus	\$ 500	\$ 490	\$ 513	\$ 523	\$ 552
Capital and Surplus Annual Growth	8.6%	(2.1%)	4.8%	2.0%	5.6%
General Account Assets	5,325	5,506	5,703	5,994	6,382
General Account Assets Annual Growth	5.0%	3.4%	3.6%	5.1%	6.5%
Separate Account Assets	3,348	2,769	3,032	3,253	3,520
Separate Account Assets Annual Growth	8.5%	(17.3%)	9.5%	7.3%	8.2%
Total Assets	\$8,673	\$8,275	\$8,735	\$9,247	\$9,902
Total Assets Annual Growth	6.3%	(4.6%)	5.6%	5.9%	7.1%

Source: S&P Global

Premium earned from another year of record annuity sales in 2025 was the main driver of the 6.5 percent annual growth in general account assets.⁵⁰ Growth in separate account assets generally fluctuates from year to year, as performance is based on targeted investment strategies, and in 2025 reflected strong stock market performance.⁵¹

The ratio of capital and surplus to total assets (i.e., general and separate account assets combined) is one indicator of the L&H sector's capacity to withstand adverse investment and mortality experience. Though record annuity sales volumes underpinned asset growth,

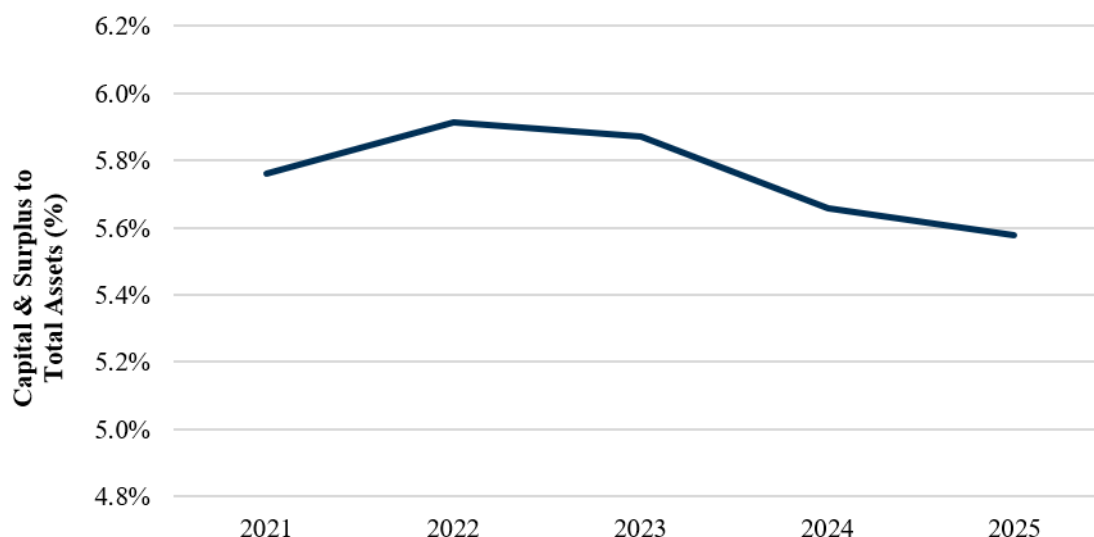
⁴⁹ As discussed in footnote 30, while pre-2023 FIO annual reports contained 10-year analyses of the L&H sector, the timeframe under analysis since then only extends back to 2019 due to a reporting change. The analyzed data is from S&P Global as of May 12, 2026. Throughout this section, references to "year-end" mean December 31 of the referenced year.

⁵⁰ A general account is where insurers deposit premiums and assets are invested in and owned by the insurer to support business operations and claims, without attribution of the assets to any particular policyholder or liability. See, e.g., "What Are the Differences Between General Accounts and Separate Accounts," SVIA, last updated July 23, 2021, <https://www.stablevalue.org/what-are-the-differences-between-general-accounts-and-separate-accounts/>.

⁵¹ A separate account is a segregated set of financial statements held by a life insurer, maintained to report assets and liabilities for specific products that are separated from the insurer's general account.

they also contributed to decreasing the sector’s capital cushion over the past few years as asset growth outpaced growth in capital and surplus. This is likely a direct result of the strong growth in asset-intensive business for retirement savings seen over the past several years. Figure 15 shows that this ratio was 5.58 percent at year-end 2025 compared to 5.66 percent at year-end 2024.⁵² The 2025 metric marked a five-year low. The decline does not, by itself, establish capital inadequacy, but it indicates a smaller aggregate surplus cushion against losses that merits continued monitoring.

Figure 15: Strength of L&H Capital & Surplus



Source: S&P Global

Capital infusions, such as surplus notes, are another contributing factor to aggregate capital and surplus. The L&H sector issued surplus notes of \$51.3 billion in 2025, compared to \$51.7 billion in 2024. Surplus note issuance has been near this same level for the past five years. Surplus notes accounted for 9.3 percent of aggregate capital and surplus at year-end 2025, compared to 9.9 percent at year-end 2024. Because surplus notes accounted for only about nine percent of total sector capital and surplus, they do not substantially change the pro forma growth of capital and surplus with their removal from capital and surplus. This suggests that the L&H sector in the aggregate has generally been able to generate adequate capital from its core operations without substantial reliance on external capital.

Over the past several years, the L&H sector has consistently been reporting net operating gains (pre-tax income from operations before capital gains or losses) that have boosted capital and surplus. For 2025, net operating income increased 11.6 percent over the 2024 level, as discussed in [Section II.A.2.a.iv](#). Net income (before capital gains or losses) contributed 8.8 percent to the growth of capital and surplus from the previous year end, compared to 7.6 percent in 2024.

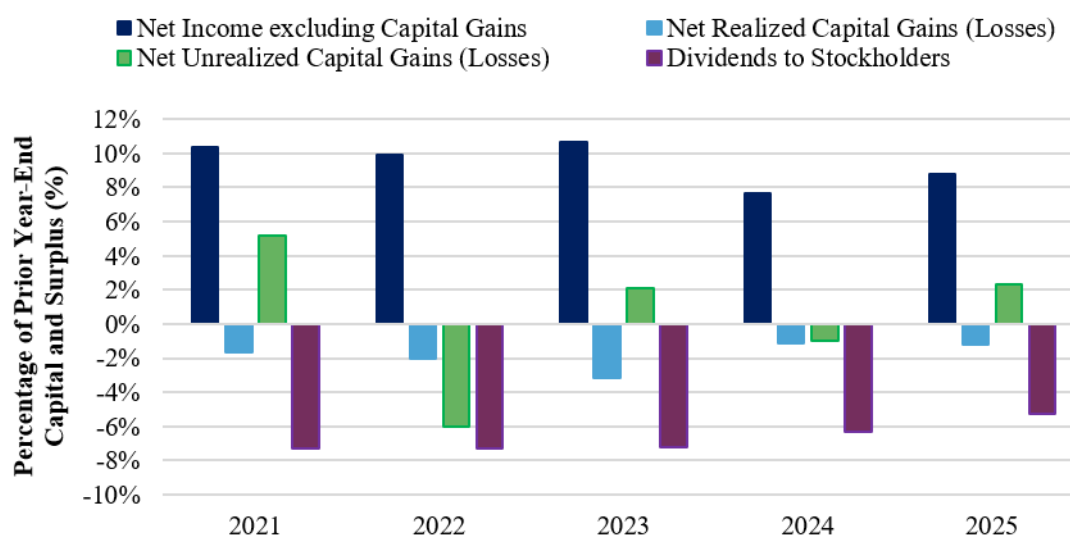
⁵² The higher ratio in 2022 was caused by the greater year-over-year decrease in total assets relative to that in capital and surplus.

As in 2024, insurers continued to take advantage of the higher rate environment in 2025 by engaging in sales of security holdings with lower book yields and reinvesting those proceeds to improve their investment returns. Nonetheless, those sales resulted in net realized capital losses of approximately six billion in 2025, essentially the same level as reported in 2024 (see [Section II.A.2.a.iv](#)), which reduced surplus growth. The impact of realized capital losses on surplus was partly mitigated by the ability of life insurers to defer a certain amount of realized losses to their interest maintenance reserve accounts.⁵³

Unrealized capital gains more than offset realized capital losses in 2025. Surplus was positively impacted by net unrealized capital gains of \$12.3 billion in 2025, reflecting the effects of improving valuations on derivative securities, unaffiliated equities, and other invested assets, but mostly by higher valuations of affiliated equity investments.

Stockholder dividends (i.e., the dividends paid by insurers) are another element of the sector's capital position, and these have the effect of partially offsetting potential growth. In 2025, stockholder dividends dropped by 15.0 percent to \$27.6 billion compared to \$32.5 billion in 2024. To help ensure that insurers' assets adequately protect policyholders, all dividends issued by insurers are subject to review by state insurance regulators, and insurers must seek regulatory approval prior to distributing extraordinary dividends. Figure 16 presents the key drivers of capital and surplus for the L&H sector discussed above in the five years through 2025.

⁵³ The NAIC adopted temporary guidance in 2023, allowing insurers with a high enough risk-based capital ratio to admit a portion of their negative Interest Maintenance Reserve balances. See, e.g., Hailey Ross & Jason Woleben, "US Life Insurers' Interest Maintenance Reserve Falls to Lowest Point Since 2011," *S&P Global Market Intelligence*, September 18, 2023, <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2023/9/us-life-insurers-interest-maintenance-reserve-falls-to-lowest-point-since-2011-77495353>. The temporary guidance has remained in effect while the NAIC has worked on relevant accounting principles; earlier this year it exposed for public comment SSAP No. 7 – *Asset Valuation Reserve and Interest Maintenance Reserve*, available through "Statutory Accounting Principles (E) Working Group, NAIC, last updated August 13, 2026, <https://content.naic.org/committees/e/statutory-accounting-principles-wg> ("Exposure Drafts" tab).

Figure 16: Leading Determinants of Capital and Surplus for the L&H Sector

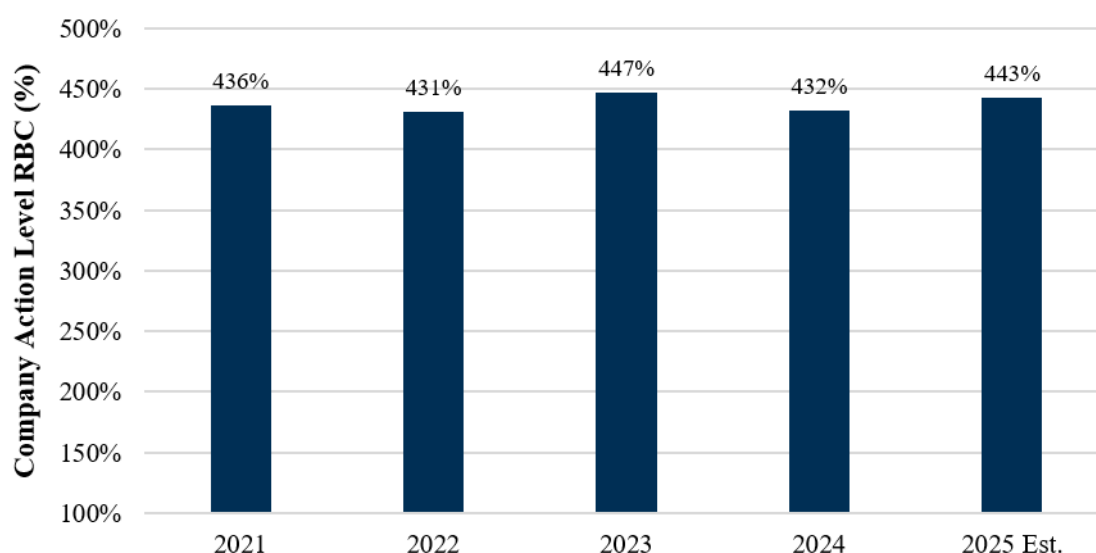
Source: S&P Global

Risk-Based Capital Developments

The NAIC's RBC framework establishes formula-based capital thresholds reflecting an insurer's size and the riskiness of its financial assets and operations. RBC is the minimum amount of capital an insurer needs to support its operations and write business. The purpose of RBC is to identify potentially weakly-capitalized companies and thereby facilitate a series of regulatory actions to help prevent an insolvency.⁵⁴ RBC ratios present actual total available capital as a multiple of the minimum required capital, presenting a picture of the capital cushion through a different lens. Figure 17 shows the Company Action Level RBC ratio for the past five years for the L&H sector. Comparison of an insurer's total adjusted capital to its Company Action Level RBC determines whether specified regulatory actions are required. This RBC ratio has remained in a relatively consistent range over that period, improving to an estimated 443 percent at year-end 2025 from the 432 percent reported for 2024.⁵⁵

⁵⁴ See, e.g., "Risk-Based Capital," NAIC, last updated June 30, 2026, <https://content.naic.org/insurance-topics/risk-based-capital>.

⁵⁵ Starting with the 2025 reporting year, S&P Global no longer supplies RBC data on an aggregated basis for the L&H sector. However, S&P Global continues to provide RBC and total adjusted capital data available for nearly all individual entities, which FIO collected and used in calculating an estimated sector RBC ratio for 2025.

Figure 17: Risk-Based Capital Ratios for the L&H Sector

Source: S&P Global and FIO Calculations for 2025

In April 2024, the NAIC Capital Adequacy (E) Task Force introduced a proposal outlining prohibitions on the publication, dissemination or circulation of RBC levels.⁵⁶ In making this proposal, the Task Force noted that, “RBC reports... are intended solely for use by the commissioner/state in monitoring the solvency of insurers,” and “comparison of an insurer’s Total Adjusted Capital to any RBC level is a regulatory tool... and is not intended or appropriate as a means to rank insurers generally.”⁵⁷ Some insurers and trade groups expressed concerns about the NAIC implementing this proposal, citing transparency issues in particular.⁵⁸ In July 2026, the NAIC Financial Condition Committee relaxed the proposed broad prohibition of RBC disclosure, now permitting insurers to disclose “certain” RBC information “to accommodate the interests of other stakeholders.”⁵⁹

Leverage Levels

The balance sheet strains for L&H insurers, which surfaced in 2024 as the leverage metrics under analysis increased from 2023 levels, continued in 2025. Leverage measures the degree to which an insurer’s surplus is exposed to risks from underwriting and investment activities and presents another indicator of relative surplus strength for the L&H sector. Leverage ratio trends can be

⁵⁶ NAIC, Minutes of the Capital Adequacy (E) Task Force, August 14, 2024, available in NAIC, *2024 Proceedings of the NAIC: 2024 Summer National Meeting*, Volume VI, at 9-591, <https://naic.soutrnglobal.net/Portal/Public/en-US/DownloadImageFile.ashx?objectId=10911&ownerType=0&ownerId=26773>.

⁵⁷ See, e.g., NAIC, Minutes of the Capital Adequacy (E) Task Force, August 14, 2024, available in NAIC, *2024 Proceedings of the NAIC: 2024 Summer National Meeting*, Volume VI, at 9-593.

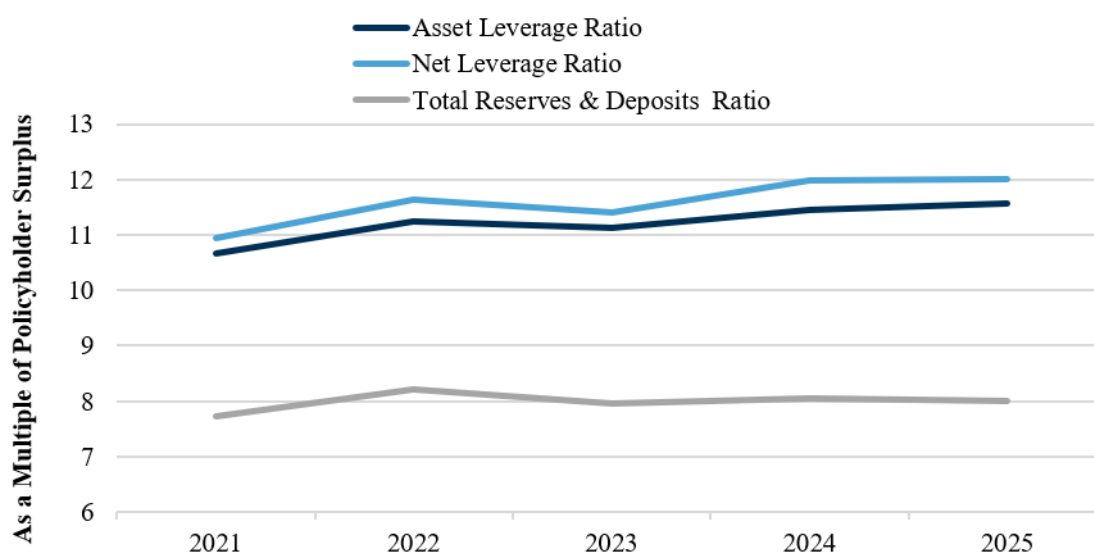
⁵⁸ Steve Hallo, “NAIC Task Force Proposes Limiting RBC Ratio Disclosure,” *A.M. Best*, March 26, 2025, <https://news.ambest.com/newscontent.aspx?altsrc=108&refnum=265018>.

⁵⁹ Daniel Rabinowitz, “NAIC Committee Revises RBC Preamble,” *Mondaq*, July 15, 2026, https://www.mondaq.com/unitedstates/insurance-laws-and-products/1817480/naic-committee-revises-rbc-preamble?email_access=on&utm_source=newsletter&utm_medium=email&utm_campaign=biweekly.

indicative of an insurer's ability to successfully navigate market pressures. The greater financial flexibility illustrated by steady (or declining) leverage ratios, for example, may better enable insurers to fulfill policyholder obligations by (1) returning a profit by investing the premiums received from underwriting activities; and (2) limiting the risk exposure from the policies underwritten. Insurers also employ reinsurance to move some of the risks off their own balance sheets and on to those of reinsurers, thereby improving (i.e., decreasing) leverage.

Figure 18 provides a view of the L&H sector's general account leverage for the last five years. As it demonstrates, the net leverage and asset leverage ratios displayed upswings from 2023, despite surplus growth, and reached high points in 2025. The ratio for total reserves and deposits continued to remain relatively stable.

Figure 18: L&H Sector Leverage Ratios



Source: S&P Global

The net leverage ratio is an indicator of the sector's exposure to pricing and estimation errors, determined by calculating total liabilities and net premiums, annuities, and considerations as a multiple of capital and surplus. In 2025, premium volume, accompanied by growth in liabilities during the year, again accounted for the increase in the net leverage ratio for the L&H sector. Net premiums, annuities, and deposits totaled \$798 billion in 2025. Compounding the strong premium volume was year-over-year growth in general account liabilities of 6.5 percent, building on 5.4 percent annual growth in 2024. General account liabilities totaled \$5.8 trillion in 2025, compared to \$5.5 trillion in 2024. As a result, the net leverage ratio amounted to 12.00 in 2025, essentially flat compared to 11.99 in 2024 and 11.41 in 2023. This suggests an increased reliance by the L&H sector on reserve funds and highlights potential pressures on its ability to absorb losses from claims.

The net leverage ratio also considers the sector's reinsurance levels because reinsurance has the effect of improving surplus through surplus relief.⁶⁰ In 2025, surplus relief was \$40.5 billion, growing by 7.0 percent from \$37.9 billion in 2024. The sector's surplus relief level rose to 7.3 percent at year-end 2025—a high for the last five years—compared to 7.2 percent at year-end 2024. Given the reinsurance activity, the higher surplus relief reported in 2025 appears largely related to new business written during the year (see [Section II.A.2.a.i](#) for discussion of reinsurance and net premiums written).

Next, the asset leverage ratio aims to measure the potential impact on the balance sheet arising from the volatility and credit quality of the sector's investment portfolio, reinsurance recoverables, and agents' balances, by comparing to their total capital and surplus. The higher the ratio, the more vulnerable the sector's capital may be to market volatility and asset impairments. At year-end 2025, the L&H sector's asset leverage ratio was 11.56, a slight increase of 0.1 from the prior year-end that was attributable to stronger growth in the sector's general account assets compared to growth of surplus.

Last, turning to total policy reserves and deposit-type contract reserves, year-over-year growth for the L&H sector averaged 3.4 percent between year-end 2021 and year-end 2025. Total policy reserves and deposit-type contract reserves were \$4.4 trillion and \$4.2 trillion at year-end 2025 and 2024, respectively. The multiple of policy reserves and deposits to capital and surplus was 8.01 at year-end 2025, down slightly from 8.05 at year-end 2024 but within the range observed for the last five years and suggesting that the financial resources set aside by the sector were largely in line with expected claims commitments.

ii. L&H Assets

Total L&H sector assets increased by 7.1 percent in 2025, reaching \$9.9 trillion, up from \$9.2 trillion at the end of 2024. As in the past couple of years, higher interest rates in 2025 presented life insurers with opportunities to optimize their long-duration investment strategies. To manage periods of market volatility in 2025, the L&H sector continued to diversify across asset classes, including by increasing its exposures to alternative and other non-traditional assets.

Steady growth of general account assets has resulted in an average annual growth rate of 4.7 percent in the last five years. Given the structure of general account assets, shown in Figure 19, general account assets growth has closely mirrored that of cash and invested assets, with the latter expanding at an annual rate of about four percent on average. Growth in the sector's investment portfolio during 2025 was largely driven by increased holdings of bonds, other invested assets (Schedule BA), and mortgage loans.⁶¹ General account assets grew to \$6.4

⁶⁰ The use of reinsurance for surplus relief is most common when an insurer begins to rapidly expand its volume of premiums written. "Surplus relief" refers to the amount of surplus not yet reported as income from commissions and expense allowances on reinsurance ceded during the current year. It captures the amounts related to A&H business as well as life and annuity business for general and separate accounts.

⁶¹ "Other invested assets" largely captures other long-term and alternative investments reported in Schedule BA of the statutory financial statement.

trillion in 2025 from \$6.0 trillion in 2024, a 6.5 percent year-over-year increase, while cash and investments totaled \$6.0 trillion and \$5.6 trillion for the same periods, respectively.

Separate account assets continued to show solid growth in 2025, increasing by 8.2 percent to \$3.5 trillion in 2025 from \$3.3 trillion at the end of 2024. Strong equity market performance was largely responsible for this growth.

General account assets have averaged 64.5 percent of the total asset portfolio on a yearly basis over the last five years, while separate account assets have averaged 35.5 percent. Figure 19 shows the composition of the L&H sector's asset portfolio and distribution of cash and invested assets since 2021, indicating the gradual shift away from traditional L&H investments towards other (higher yielding and often more complex) asset classes like Collateralized Loan Obligations (CLOs) and other structured securities.

Figure 19: Composition of L&H Sector Asset and Investment Portfolio

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
General Account Assets/Total Assets	61.4%	66.5%	65.3%	64.8%	64.5%
Separate Account Assets/Total Assets	38.6%	33.5%	34.7%	35.2%	35.5%
Bonds (long-term)	70.0%	69.6%	68.1%	67.4%	66.8%
Preferred Stocks	0.4%	0.3%	0.3%	0.3%	0.4%
Common Stocks	2.4%	2.1%	2.3%	2.2%	2.3%
Mortgage Loans	12.7%	13.3%	13.7%	14.0%	13.9%
Real Estate	0.5%	0.4%	0.4%	0.4%	0.4%
Contract Loans	2.6%	2.5%	2.6%	2.6%	2.5%
Derivatives	1.9%	1.8%	1.9%	2.2%	2.1%
Cash & Short-Term Investments	2.9%	2.7%	3.5%	3.5%	3.6%
Other Investments	6.6%	7.1%	7.2%	7.4%	8.0%
Total Cash & Investments	100.0%	100.0%	100.0%	100.0%	100.0%
Cash and Invested Assets' Share of General Account Assets	94.8%	94.4%	93.7%	93.7%	93.5%

Source: S&P Global

Effective for reporting years beginning on January 1, 2025, the NAIC's Principles-Based Bond Definition now defines a bond as a security that establishes a creditor relationship, features a fixed payment schedule, and is either an issuer credit obligation or an asset-backed security.⁶² Implementation of the definition resulted in a shift of approximately \$15.4 billion (or about 0.4 percent of total bonds) in L&H general account assets from long-term bond classification to

⁶² See, e.g., NAIC, *Statutory Issue Paper No. 169: Principles-Based Bond Definition* (August 13, 2024), <https://content.naic.org/sites/default/files/inline-files/Bond%20IP%20-%20Updated%209-12-24.pdf>; Zach Goodman, "Why the NAIC's New Principles-Based Bond Guidance is a Strategic Shift," *EY*, August 21, 2024, https://www.ey.com/en_us/insights/insurance/naic-principles-based-bond-guidance.

other investment schedules in 2025.⁶³ While this impact was relatively small, it further elevates the long-term trend of migration out of long-term bonds into other asset classes.

The L&H sector's general account asset portfolio reflects the structure of the investment portfolio. Cash and invested assets made up 93.5 percent of general account assets at year-end 2025. Bond holdings (primarily corporate) have consistently made up the bulk of the L&H sector's investment portfolio, reflective of the significant role that life insurers have in the corporate bond market for their asset-liability matching strategy. The predictability of cash flows from bond investments may enhance the ability of insurers to meet future policyholder obligations. Since 2021, close to 98 percent of bonds held by life insurers have been long-term in tenor—in line with the long-dated obligations under life policies and annuity contracts.

Long-term bonds held by L&H insurers totaled \$4.0 trillion at year-end 2025, 5.3 percent higher than the level reported at the prior year-end but comprising a slightly smaller proportion of the sector's total investment holdings.⁶⁴ As shown in Figure 19, the sector's allocation to long-term bonds has followed a downward trajectory over the last five years, falling from 70.0 percent at year-end 2021 to 66.8 percent at year-end 2025.

At year-end 2025, corporate and municipal bonds constituted 53.9 percent and 4.1 percent of the L&H bond portfolio, respectively.⁶⁵ Asset-backed securities (ABS) and other structured securities of \$1.1 trillion comprised 27.2 percent of total L&H bonds at year-end 2025.

After long-term bonds, the second largest L&H investment allocation has consistently been mortgage loans. They totaled \$832.1 billion and \$785.9 billion in 2025 and 2024, respectively, reflecting 5.9 percent year-over-year growth. Commercial mortgage loans are a source of diversification and have consistently been a significant portion of the L&H sector's mortgage loan exposure, facilitated through direct lending. Commercial mortgages of \$638.7 billion comprised 76.8 percent of L&H mortgage exposure at year-end 2025 compared to \$630.0 billion and 80.2 percent at the prior year-end. However, residential mortgage loans, representing 18.5 percent of total mortgage loans at the end of 2025, have been a fast-growing area of investment for L&H insurers. At year-end 2025, the sector held \$153.9 billion of direct residential mortgage loans, an increase of 31.1 percent from the \$117.4 billion held in 2024, on top of growth of 42.1 percent from the \$82.6 billion held at the end of 2023.

Figure 20 describes L&H sector holdings of alternative assets, both as reported on Schedule BA and as a share of cash and invested assets. As Figure 20 shows, the L&H sector's holdings of alternative investments have been on the rise: they totaled \$475.6 billion at year-end 2025, up

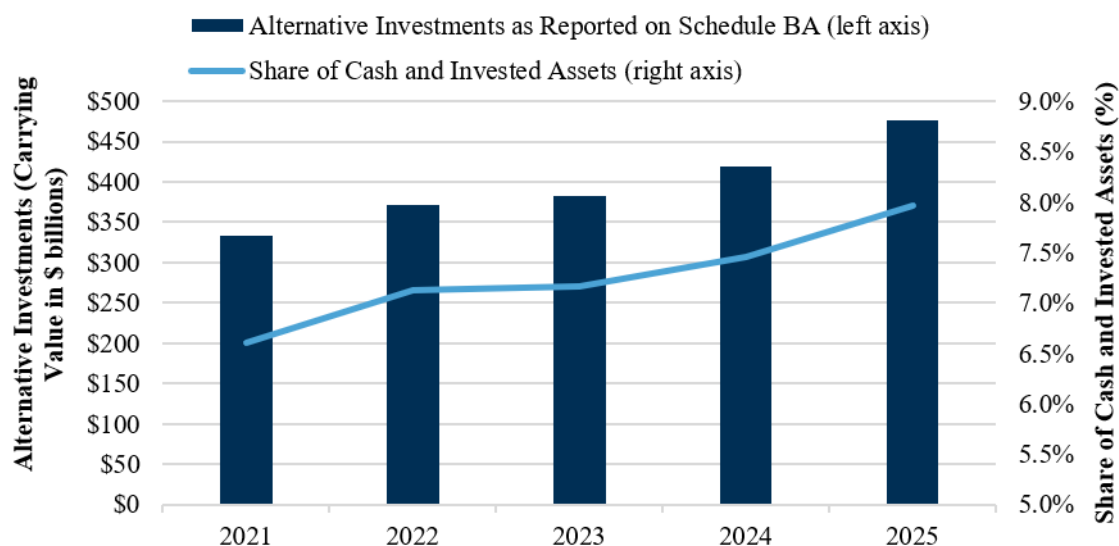
⁶³ Husain Rupawala, *et al.*, “2026 US Insurance Investments Market Report: A Regulatory Redesign,” *S&P Global Market Intelligence*, August 4, 2026, <https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=104558164&KeyProductLinkType=21&redirected=1>.

⁶⁴ Beginning with reporting year 2025, “asset-backed securities” have been separated from “issuer credit obligations,” which have also been more granularly sub-categorized. One result of this recategorization is that the former “industrial and miscellaneous” bond category that included corporate bonds as well as some asset-backed securities and other asset types is now much less nebulous. However, for purposes of this analysis, when referring to “bonds,” this Report includes the total of “issuer credit obligations” and “asset-backed securities.”

⁶⁵ For the 2025 reporting year, NAIC revamped the fixed income investments categories reported in Annual Statements, and historical data is not yet available, so comparisons to prior years' data cannot be made.

13.6 percent from \$418.5 billion at year-end 2024, and 1.4 times the value of these holdings at year-end 2021. Alternative investments thus continued to comprise an increasing share of the sector's aggregate investment portfolio. FIO continues to monitor these market trends and regulatory developments in the L&H sector's asset allocation. (See also [Box 2](#).)

Figure 20: L&H Sector Holdings of Alternative Investments



Source: S&P Global

Box 2: Trends in L&H Sector Investments and AIR

L&H insurers in the United States have been increasingly investing in assets classified in the fair value hierarchy as Level 3 and in assets with private letter ratings also known as PLRs. As detailed below, this growth may be driven by opportunities for higher yields and longer durations as well as by regulatory considerations.⁶⁶

Level 3 is not a distinct asset class; rather, it is a fair value measurement category for assets valued using significant unobservable inputs, often valued through models and assumptions.⁶⁷ Assets classified as Level 3 may include certain private loans, private equity, real estate interests, and complex structured securities. These assets may help insurers diversify portfolios and better match cash flows for long-term commitments to policyholders. However, valuation uncertainty and liquidity risk can also present concerns for insurers and supervisors, including the need for a proportionate risk management framework and supervisory monitoring and treatment.

⁶⁶ “Life Insurers Tied to Alt IMs See Higher Private Credit Exposure, Risk,” *Fitch Wire*, October 24, 2025, <https://www.fitchratings.com/research/insurance/fitch-ratings-life-insurers-tied-to-alt-ims-see-higher-private-credit-exposure-risk-24-10-2025>.

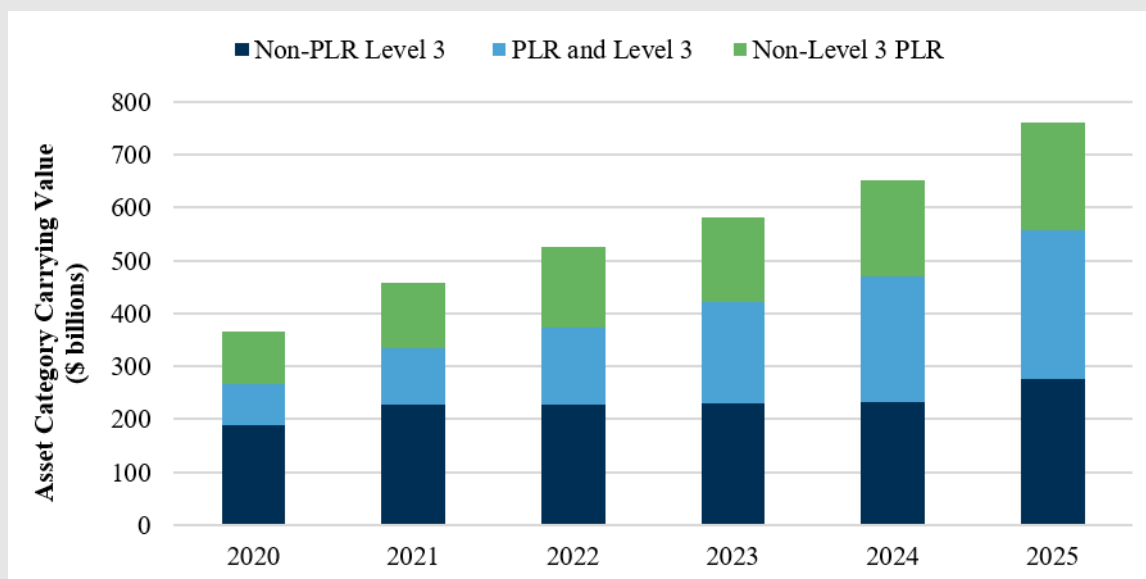
⁶⁷ See NAIC, Schedule D, Part 1. For more on fair value, see, e.g., FASB, *Fair Value Measurement (Topic 820)* (2011), 820-10-35-27, <https://asc.fasb.org/layoutComponents/getPdf?isSitesBucket=false&fileName=GUID-8C4D2BA9-EB99-440C-8EA8-1D37BEC65E98.pdf>; PWC, *Fair Value Guide* (2026), 4.5, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/fair_value_measureme/fair_value_measureme_9_US/capter_4_concepts_u_US/45_inputs_to_fair_va_US.html.

PLRs are confidential nonpublic assessments on the capacity of an issuer to repay a security or obligation, which are issued by a credit rating agency for a specific asset. These ratings are shared privately with the issuer, regulators, and investors rather than published for the broader market. These ratings are often provided for privately placed bonds, loans, or structured investments where public ratings may not be available. Insurers may invest in assets with PLRs because these ratings help them assess credit risk, support regulatory capital treatment by the NAIC and state insurance regulators, and compare the investment's risk with that of more familiar public bonds.

An analysis of U.S. L&H insurance Schedule D, Part 1 shows three distinct, mutually exclusive categories of assets involving Level 3 and PLR assets: first, assets reported as Level 3 and not having a PLR (Non-PLR Level 3); second, assets reported as Level 3 and having a PLR (PLR and Level 3); and third, assets reported as not Level 3 and having a PLR (Non-Level 3 PLR). These three asset categories represented roughly 19 percent of the total carrying value of Schedule D, Part 1 at year-end 2025.

In the aggregate, these three categories increased in carrying value by 108 percent over the past five years, from \$365.2 billion at year-end 2020 to \$760.1 billion at year-end 2025 (see Figure B1). Separately, however, the rate of growth varied significantly by asset category. Between 2020 and 2025, Non-PLR Level 3 assets increased in carrying value by 46 percent, PLR and Level 3 assets increased in carrying value by 263 percent, and Non-Level 3 PLR assets increased in carrying value by 106 percent. After removing these three asset categories from the total sector reporting, the aggregate carrying value of the remainder of Schedule D, Part 1 assets increased by only seven percent during the same period.

Figure B1: L&H Sector Level 3 and PLR Asset Investments



Source: S&P Global

In aggregate, the three categories had around 90 percent of investment grade assets, on average, between year-end 2020 to year-end 2025. Specifically, an average of 88 percent of Non-PLR Level 3 assets, 91 percent of PLR and Level 3 assets, and 93 percent of Non-Level 3 PLR assets

were reported as investment grade over this period. The reporting also showed that investment grade shares of the three asset categories have been increasing.

Additionally, L&H insurers in the United States continue to reinsure business offshore through partnerships with alternative investment managers, particularly with affiliates in Bermuda, the Cayman Islands, and Barbados, among others. Insurers cite risk-sharing and portfolio diversification as benefits of offshore AIR. Reinsurers' ability to generate higher returns on assets can also be an important motivation for AIR agreements,⁶⁸ particularly where there are differences in regulatory treatment across jurisdictions.

Regulation and supervision of the L&H sector in the United States has continued to evolve in recent years in response to the trends discussed above.⁶⁹ FIO will continue to monitor developments in L&H insurers' investments and engage with the NAIC, state regulators, and other stakeholders on issues related to these market developments.

iii. L&H Liquidity

Liquidity risk is the risk that a firm will have to take a loss when it is forced to raise cash quickly. For insurers, liquidity risk is most likely to occur when they must pay customers an unexpectedly large amount.⁷⁰ Policyholder behavior, changing economic conditions, credit rating downgrades, and greater margin requirements on derivatives are among some of the drivers that can affect a life insurer's liquidity demands.

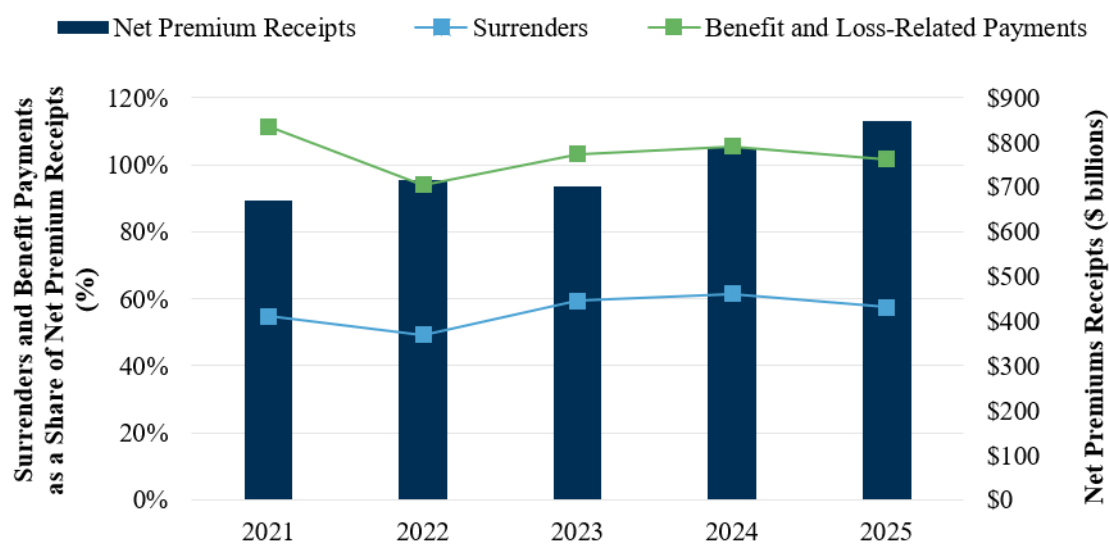
The L&H sector's liquidity profile has been characterized by positive net cash flows from operations year after year, which has been a source of financial strength for the sector. Figure 21 illustrates the cash flows from L&H sector operations for each of the past five years, showing surrenders and benefit payments, each as a share of net premium receipts.⁷¹

⁶⁸ See, e.g., Fabian Garavito, et al., *Shifting Landscapes: Life Insurance and Financial Stability* (2024), https://www.bis.org/publ/qtrpdf/r_qt2409b.htm.

⁶⁹ See, e.g., NAIC, "Navigating Shifts in Life Insurance: How Regulators Respond to Market Evolution," news release, December 3, 2025, <https://content.naic.org/article/navigating-shifts-life-insurance-how-regulators-respond-market-evolution>.

⁷⁰ In extreme cases, liquidity risk can lead to runs. Runs occur when many liability holders rush to withdraw their funds from an institution because they fear the money will run out. However, life insurers manage their cash flows tightly, creating cash buffers to offset potential liquidity shocks by drawing on such funding sources as the Federal Home Loan Bank and interest rate derivatives, thereby helping to reduce the likelihood of fire sales of assets. Moreover, surrender penalties and other deterrents attached to certain life insurance products and the reserving mechanisms in place at life insurers make bank-like runs a relatively remote risk.

⁷¹ This liquidity analysis is based on cash inflows and outflows from operations, as reflected in the cash flow statement, and specifically refers to premiums that were collected and benefit and loss-related payments made during the year. By contrast, the income statement presents a view of profitability for the year, reflecting the revenues and gains as well as the expenses and losses incurred during the reporting period. Timing differences differentiate the cash flow and income statement.

Figure 21: Cash Flows from Operations for the L&H Sector

Source: S&P Global

Cash flows from operations improved in 2025 from the prior year, as they did between 2023 and 2024, again largely due to higher net premiums receipts and net investment income. Cash flows from operations were \$226.1 billion and \$173.9 billion in 2025 and 2024, respectively. In viewing the L&H sector's experience since 2021, surrender volumes and benefit payments reached a high point in 2025, building on the growth observed in 2023 and 2024.

The ratios in Figure 21 are reflective of the broader market and economic conditions in 2025. The ratios were on an upward trajectory since 2022, when the Federal Reserve began to raise interest rates to address inflationary pressures, but moderated in 2025. As inflation continued to subside, the Federal Reserve lowered the federal funds rate by 75 basis points over the course of 2025. Following annual growth in surrenders at double digit rates for the past two years, policyholders increased surrenders of their policies at a much slower 0.6 percent rate in 2025. In aggregate, the L&H sector reported surrender payments of \$487.2 billion in 2025 compared to \$484.2 billion in 2024. Benefit and loss-related payments amounted to \$862.2 billion in 2025, up by 3.7 percent from \$831.3 billion in 2024. While growth in premium receipts remained solid in 2025, the two ratios in Figure 21 improved from the prior year due to the slower growth reported for surrenders and benefit payments. Net premiums collected were \$848.2 billion, rising by 7.7 percent from \$787.7 billion in 2024 (see [Section II.A.2.a.ii](#) for more discussion of surrenders and benefits payments).

Positive cash flows from operations have also contributed to constant growth in cash and invested assets for the L&H sector, bolstering its liquidity position. Cash and invested assets of \$6.0 trillion expanded by 6.2 percent from the prior year. Moreover, the ratio of cash and invested assets to general account liabilities has remained stable at slightly above a multiple of one annually, illustrating the sector's tightly matched asset-liability books.

Due to their longer duration liabilities, life insurers' portfolios are often heavily weighted with fixed-income securities because they provide greater certainty in asset cash flows. As such,

bonds have consistently made up the bulk of L&H cash and investments (as also discussed above). The sector has invested at least 94 percent of its bond portfolio in investment-grade debt in each of the last five years, serving to help mitigate its credit risk exposure and reinforce its liquidity—although liquidity of individual holdings also depends on whether they are publicly traded, privately placed, or subject to any trading restrictions. Bonds totaled \$4.1 trillion at year-end 2025, rising 4.9 percent from \$3.9 trillion at year-end 2024. Approximately 95.4 percent of total bonds were designated investment grade for statutory reporting purposes at the end of 2025.

To align with the long-term obligations on the L&H sector's balance sheet, 39.9 percent (or \$1.6 trillion) of the bond portfolio had maturities of 10 years or longer at year-end 2025, compared to 40.9 percent (or \$1.6 trillion) at year-end 2024. Of the bonds with maturities of 10 years or longer, 49.6 percent had maturities greater than 20 years, decreasing from 50.6 percent at year-end 2024 and continuing the downward trend observed since 2021, reflective of the sector's shift in investment strategies. Nearly 23.7 percent of the bond portfolio consisted of holdings with maturities between 5 and 10 years as of year-end 2025, compared to 22.9 percent as of the prior year-end. In summary, close to two-thirds of the sector's entire bond portfolio has steadily been allocated to medium- to long-duration investments in each of the last five years, supporting the longer time horizon of a life insurer's obligations.

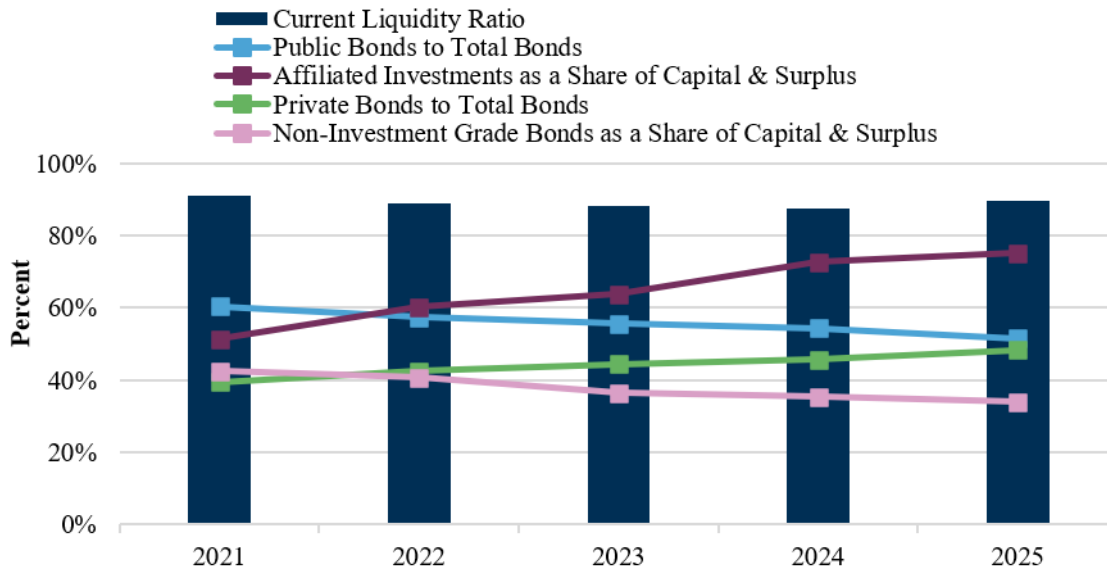
Enduring Investment Trends

As noted earlier and in last year's Annual Report, the protracted low-interest rate environment that followed the Great Financial Crisis had contributed to balance sheet strains for life insurers, leading them to search for higher yielding, albeit less liquid investments, such as private credit, and achieve capital efficiencies in support of the sector's product mix. With increased entrants in the life insurance space, life insurers also sought to maintain competitiveness. At present, the L&H sector's continued ability to support its policyholder and funding commitments as they come due appears to remain strong. Nevertheless, increasing exposure to the private credit market led to efforts by the NAIC and state regulators to improve transparency and oversight of private market transactions.⁷²

Remaining unchanged from the past several years is the ongoing use of complex, structured, and private and other alternative assets, which has gradually transformed the investment profile of the L&H sector, as illustrated in Figure 22. The investment allocations may generate higher expected yields but could also have increased potential liquidity, credit, and complexity risk. Specifically, the share of the bond portfolio allocated to private bonds has remained on an upward path, while public bond allocations have decreased by over nine percentage points since 2021.⁷³ Additionally, changes in other investment allocations continue to carry implications for the sector's reserves and capital that these assets support.

⁷² See, e.g., FIO, 2025 Annual Report, 29-30.

⁷³ At year-end 2021, public bonds of \$2.2 trillion comprised almost 60.5 percent of the L&H aggregate bond portfolio. At year-end 2025, public bonds totaled \$2.1 trillion and made up just 51.6 percent of L&H bond holdings.

Figure 22: A View of L&H Sector Liquidity

Source: S&P Global

Of note is that the L&H sector has been reducing its allocations to non-investment grade bonds since 2021. Though steadily declining as a share of L&H capital and surplus since 2021, non-investment grade bonds still account for a significant portion: 34.0 percent of capital and surplus at year-end 2025 compared to 35.5 percent and 36.4 percent at year-end 2024 and 2023, respectively. By contrast, affiliated investments have been on an upward trajectory, growing year-over-year and accounting for a larger proportion of L&H capital and surplus. Such investments are typically illiquid and thus may negatively impact the overall quality of available capital.

As shown in Figure 22, privately placed bonds, including private credit, have consistently accounted for a growing share of total bond holdings over the past five years, reaching 48.4 percent at year-end 2025. The reallocation to private credit may allow the L&H sector to reduce portfolio volatility and benefit from low correlation to public markets. The growing exposure to private credit has also enabled insurers to generate additional spread earnings to compensate for the relative illiquidity assumed. This trend, however, may result in more complex assets on life insurers' balance sheets.

The following subsections discuss some key characteristics that may contribute to greater illiquidity of certain asset classes as well as to the ongoing growth of non-traditional and affiliated exposures in 2025.

Private Credit

In addition to the specialized expertise needed to understand and structure private credit, private credit may also be linked to lower levels of transparency than comparable public assets. Estimating the value of private credit may also require more assumptions and projections that need to be validated. Therefore, issuers of private credit may offer additional yield or an illiquidity premium to compensate investors. Life insurers' private

placement holdings have progressively expanded in the last five years, taking up almost 3.6 times the L&H sector's capital and surplus at year-end 2025 compared to a 2.8 multiple at year-end 2021. See [Box 2](#) for a more detailed discussion of insurers' exposures to private credit and related assets.

Alternative Assets and Structured Securities

As in 2024, growth in alternative assets continued to outpace that of the bond portfolio at year-end 2025, growing by 13.6 percent to total \$475.6 billion.⁷⁴ The trend towards investing in alternative and non-traditional asset classes by life insurers has raised the level of illiquidity embedded in capital and surplus. There can also be a lower degree of credit and pricing transparency associated with some of these illiquid types of investments. As illustrated in Figure 20 above, the L&H sector's increased exposure to alternative assets in 2025, as reported on Schedule BA, built on the 9.4 percent growth reported in 2024. Furthermore, these alternative assets comprised 86.1 percent of the sector's capital and surplus at year-end 2025, up from 80.0 percent at year-end 2024 and nearly 20 percentage points greater than at year-end 2021 (66.6 percent).

The L&H sector's bond portfolio extends beyond corporate and government bonds to include asset-backed securities (ABS) and other structured securities (including CLOs), as noted in [Section II.A.2.b.ii](#). Comprising slightly more than 18 percent of the L&H sector's investment portfolio as of year-end 2025, ABS holdings totaled \$1.1 trillion, a volume that has been steadily rising each year since 2021. The presence of such securities on insurers' books highlights the growth of non-traditional bond holdings for life insurers and points to the desire for portfolio diversification and higher yield. ABS represented 27.2 percent of the bond portfolio as of year-end 2025. Like corporate and municipal debt instruments, structured securities are susceptible to credit pressures and interest rate movements. ABS and other structured asset classes, however, are more complex than traditional debt instruments, and therefore may amplify liquidity vulnerabilities in times of stress and may also be subject to other risk exposures that include valuation and prepayment risks.⁷⁵

Affiliated Exposures

Considerable year-over-year growth has been exhibited in L&H affiliated exposures over the last five years, the effects of which may be material for insurer liquidity and solvency. Affiliated investments were \$414.9 billion and \$380.6 billion in 2025 and 2024, respectively, amounting to a 9.0 percent annual increase and making up 7.0 percent of 2025 L&H cash and investments. Due to the relatively illiquid nature of affiliated holdings, significant growth in affiliated investments could have the potential to adversely affect an insurer's capital base and ability to

⁷⁴ Alternative investment values are drawn from Schedule BA of the statutory financial statement. See Jennifer Vento & Michele Wong, *Double-Digit Increase in U.S. Insurers' Other Long-Term Invested Assets at Year-End 2025: NAIC Capital Markets Special Report* (2026), <https://content.naic.org/sites/default/files/capital-market-schedule-ba-ye2025.pdf>.

⁷⁵ The degree and scope of the risks associated with these types of securities differ, depending on their structure. The securities are structured to meet investors' risk appetites and can range from pass-throughs to complex tranching arrangements.

meet unexpected cash needs. Affiliated cash and invested assets equaled approximately 75.1 percent of capital and surplus as of year-end 2025, expanding from 72.8 percent as of year-end 2024.

Mitigants

As outlined above, the L&H sector's aggregate liquidity measures remained sound and generally improved in 2025, although continued growth in private, alternative, structured, and affiliated investments warrants continued monitoring because portions of these holdings may be more difficult to monetize during periods of market stress. However, several factors may mitigate such concerns.

First, net cash flow from operations remained positive and increased in 2025, while the current liquidity ratio improved and cash and invested assets continued to exceed general account liabilities on an aggregate carrying value basis.

Second, credit quality in L&H bond exposures remained generally high, with 95.4 percent of bonds rated investment grade. The predominance of investment grade bonds mitigates some credit risk. Publicly traded investment grade bonds, which accounted for 50.5 percent of total bonds in 2025, also provide a potential source of liquidity.

Third, despite the continued growth in the L&H sector's holdings of affiliated cash and investments, the bulk of the investment portfolio has consistently been comprised of unaffiliated interests, taking up about 94 percent of total cash and investments on average. Unaffiliated cash and invested assets have covered general account liabilities by a multiple of one in each of the last five years.

3. Property and Casualty Insurance Sector

This section presents additional analysis of the financial performance of the P&C sector in 2025 and then assesses the P&C sector's overall financial condition as of December 31, 2025, including a trend analysis of the last 10 years.

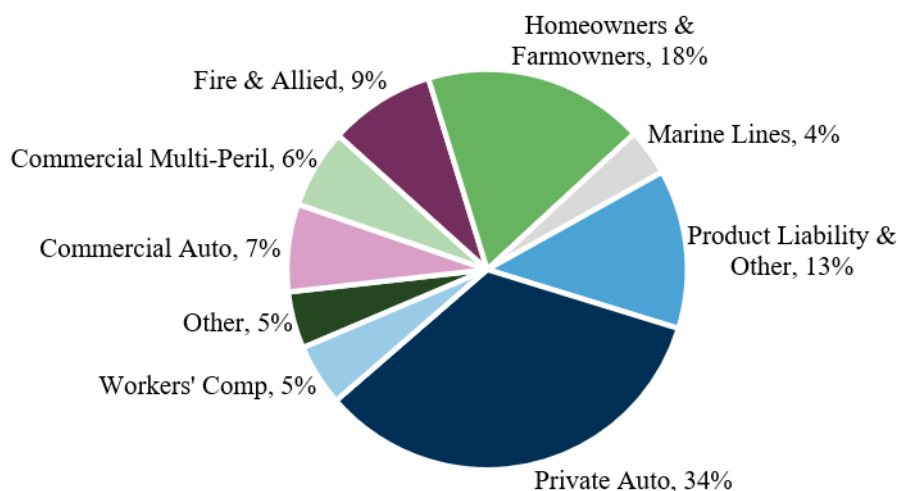
a) Financial Performance of P&C Insurance Sector

i. P&C Direct and Net Premiums Written

For 2025, total P&C sector direct premiums written reached a record level at approximately \$1.1 trillion, but premium growth slowed from an average annual increase of 9.7 percent over the prior four years to a 4.8 percent increase in 2025. Figure 23 shows the 2025 composition of P&C sector direct premiums written by lines of business. Figure 24 shows a 10-year view of the amount and composition of direct premiums written by major lines of business. Direct premiums written for personal lines increased by 5.4 percent in 2025 compared to 2024, while direct premiums written for commercial lines increased by 4.7 percent. During 2025, two of the three largest lines of P&C business (private passenger auto liability and auto physical damage) experienced a lower growth rate in direct premiums written compared to 2024. Specifically, private passenger auto liability premiums (approximately 19 percent of total P&C sector direct

premiums written) increased by 5.7 percent in 2025, largely driven by rate adequacy achievement and market expansion.⁷⁶ Auto physical damage premiums (approximately 16 percent of the sector total) increased by 1.3 percent, driven by decreasing vehicle repair costs due to normalization of vehicle supply chains and a drop in claim severity, decreasing pressure to raise rates.⁷⁷

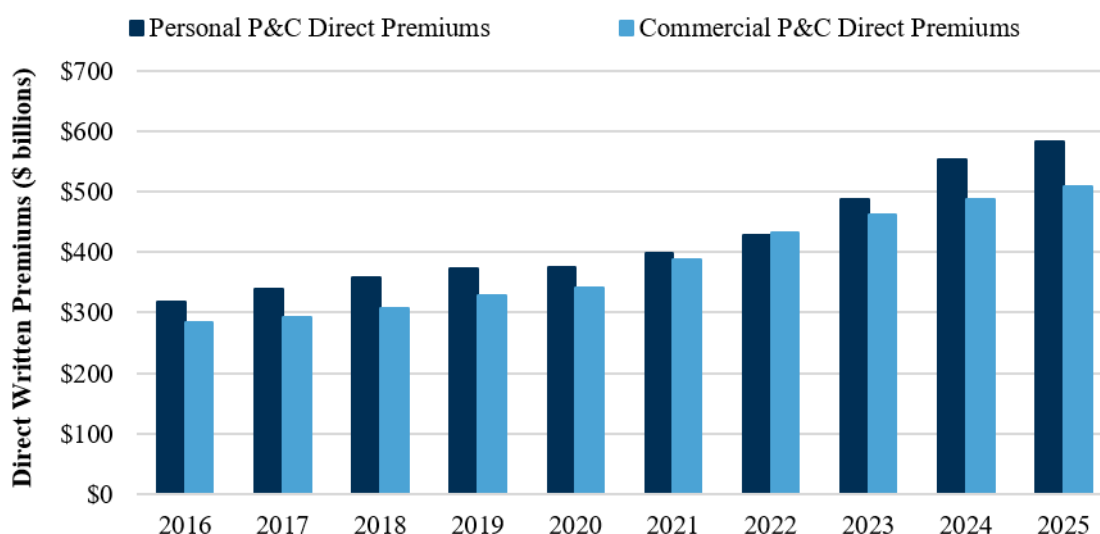
Figure 23: 2025 P&C Sector Composition of Direct Premiums Written



Source: S&P Global

⁷⁶ Terrence Dopp, “Update: Best’s Rankings: Progressive Moves Into Top Spot for US Private Passenger Auto Liability, Top P/C Line,” *A.M. Best*, June 18, 2026, <https://news.ambest.com/newscontent.aspx?refnum=275193>; “Best’s Special Report: Personal Auto and Homeowners Markets’ Stabilization Evident Despite a Decline in Approved Rate Changes,” *A.M. Best*, May 18, 2026, <https://news.ambest.com/newscontent.aspx?refnum=274536>; Jason Woleben & Tim Zawacki, “Spectacular P&C Statutory Profitability May Prove Fleeting,” *S&P Global*, March 24, 2026, <https://www.spglobal.com/market-intelligence/en/news-insights/research/2026/03/spectacular-p-and-c-statutory-profitability-may-prove-fleeting>.

⁷⁷ A.M. Best, *Best’s Rankings: U.S. Property/Casualty By-Line Writers Ranked by 2025 Direct Premiums Written* (2026), https://news.ambest.com/research/DisplayBinary.aspx?TY=P&record_code=365802 (2025 P&C Writer Rankings).

Figure 24: P&C Sector Direct Premiums Written

Source: S&P Global

Commercial lines premium growth varied among individual lines, with growth in liability lines driven by rate increases to counter underwriting losses, including a 9.3 percent gain in commercial auto liability, an 8.0 percent increase in other liability, and a 4.4 percent gain in commercial multi-peril.⁷⁸

Total net reinsurance cessions (reinsurance ceded less reinsurance assumed) for the P&C sector increased by 4.7 percent for 2025, resulting in a record \$979.3 billion in net premiums written for the sector. This marked an increase of 4.9 percent in net premiums written from 2024. Growth in net reinsurance cessions was in line with the increase in direct premiums written.

Box 3: Insurance and Automated Vehicles⁷⁹

Motor vehicle accidents and their related insurance expenses represent a large cost for the economy. At least six million motor vehicle accidents occur in the United States annually, causing 40,000 deaths and injuring 2.5 million people.⁸⁰ In 2024, motor-vehicle use resulted in an estimated \$559.3 billion in economic losses, including wage and productivity losses, medical

⁷⁸ A.M. Best, *2025 P&C Writer Rankings*; “Best’s Market Segment Report: Rate Actions, Investment Gains Drive US Property/Casualty Insurance Segment’s 2025 Results; Headwinds May Pressure Carriers in 2026,” A.M. Best, February 23, 2026, <https://news.ambest.com/NewsContent.aspx?refnum=272763>.

⁷⁹ This discussion only addresses highly automated vehicles driven on public roads operating at a Level 4 and above level of autonomy, as defined by the Society of Automotive Engineers. See “J3016_202104 – Taxonomy and Definitions for Terms Related to Driving Automation Systems for On-Road Motor Vehicles,” SAE International, current standard as of April 29, 2021, https://www.sae.org/standards/j3016_202104-taxonomy-definitions-terms-related-driving-automation-systems-road-motor-vehicles.

⁸⁰ National Highway Traffic Safety Administration, *Quick Facts 2024* (June 2026), 1, <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813809>.

expenses, administrative expenses, motor-vehicle property damage, and employer costs.⁸¹ Insurance obtained to fulfill mandatory liability insurance requirements in 49 states and the District of Columbia helps pay for a portion of these costs associated with motor vehicle accidents.⁸² The cost for this protection, however, is substantial, as Americans spent about \$429.7 billion in personal and commercial auto insurance premiums in 2024, which represented 40.9 percent of the overall U.S. P&C insurance market.⁸³

One of the key means to reduce insurance costs is to reduce the number of accidents by improving safety. Federal initiatives to improve motor vehicle safety date back to at least the 1960s, when Congress passed a series of laws that created minimum safety standards, such as seatbelts and windshield wipers for vehicles.⁸⁴ Vehicle safety improvements may also be traced to the 2001 National Defense Authorization Act, which directed the military to make one third of operational combat ground vehicles unmanned (i.e., automated) by 2015, spurring the Defense Advanced Research Projects Agency to host a series of contests to advance automated vehicles (AV) and inaugurating the modern era of AVs.⁸⁵

The federal government continues to explore ways to advance AV adoption in the United States. In September 2026, the Department of Transportation released a national strategy for AVs with three goals: (1) prioritizing the safety of ongoing AV operations on public roads, (2) convening national stakeholders to promote seamless cross-state interoperability, and (3) providing regulatory certainty.⁸⁶

The NAIC, insurance industry groups, and others have noted that regulatory uncertainty is among the insurance and legal issues that may impede broader AV adoption. Thirty-eight states have enacted varying forms of insurance or liability-related requirements for AVs. AV technology may also shift the responsive insurance coverage for auto accidents away from standard auto liability policies purchased by drivers and towards manufacturers' and software

⁸¹ National Safety Council, *Injury Facts: Motor Vehicle—Introduction*, <https://injuryfacts.nsc.org/motor-vehicle/overview/introduction/>.

⁸² See, e.g., “Background on: Compulsory Auto/Uninsured Motorists,” Insurance Information Institute, last updated March 8, 2024, <https://www.iii.org/article/background-on-compulsory-auto-uninsured-motorists>; “Uninsured Motorists,” NAIC, <https://content.naic.org/insurance-topics/uninsured-motorists>; see also Blincoe, et al., *Economic and Societal Impact*, 2, 6.

⁸³ Jason Woleben, “In Industry First, U.S. P&C Insurers Exceed \$1 Trillion in Direct Annual Premiums,” S&P Global Market Intelligence, March 24, 2025, <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/3/in-industry-first-us-pc-insurers-exceed-1-trillion-in-direct-annual-premiums-88062276>.

⁸⁴ Congressional Research Service, *Motor Vehicle Safety: Issues for Congress* (2020), 1-2, https://www.congress.gov/crs_external_products/R/PDF/R46398/R46398.8.pdf.

⁸⁵ “Overview,” DARPA Urban Challenge, <https://www.grandchallenge.org/grandchallenge/overview.html>; Alex Davies, “Inside the Races That Jump-Started the Self-Driving Car,” *WIRED*, November 10, 2017, <https://www.wired.com/story/darpa-grand-urban-challenge-self-driving-car/>.

⁸⁶ U.S. Department of Transportation, *America Leads: DOT’s National Strategy for Automated Vehicles, Fiscal Years 2026-2030*, 3-5, (2026), https://www.transportation.gov/sites/dot.gov/files/2026-09/AV%20National%20Strategy_508_3Sep2026.pdf.

developers' products or cyber liability policies.⁸⁷ Such a shift in insurance coverages could change the size and makeup of the auto insurance market. Changing coverage types could also involve more costly litigation: currently, insurers spend five to ten times more on products liability litigation as than they do on auto negligence litigation.⁸⁸ Thus, although AVs may be associated with fewer auto accidents,⁸⁹ and potentially could result in fewer lawsuits, such litigation would likely be more expensive than the current average for auto negligence litigation.

FIO will continue to monitor AV insurance developments.

ii. P&C Underwriting Results

Figure 25 shows the combined ratio for the P&C sector and its composition for the past five years.⁹⁰

Figure 25: P&C Sector Combined Ratios and Composition

	2021	2022	2023	2024	2025
Loss Ratio	62.39	66.44	66.49	61.61	57.63
Loss Adjustment Expense Ratio	<u>10.15</u>	<u>9.93</u>	<u>9.88</u>	<u>9.35</u>	<u>8.95</u>
Loss and Loss Adjustment Expense Ratio	72.54	76.37	76.37	70.96	66.58
Net Commission Ratio	11.05	11.11	10.77	10.68	10.72
Salaries & Benefits Ratio	7.16	6.72	6.74	6.74	6.65
Tax, License & Fees Ratio	2.29	2.28	2.31	2.34	2.36
Administrative & Other Expense Ratio	<u>6.02</u>	<u>5.81</u>	<u>5.17</u>	<u>5.47</u>	<u>6.09</u>
Expense Ratio	26.52	25.93	24.99	25.23	25.82
Policyholder Dividend Ratio	0.67	0.44	0.44	0.46	0.64
Combined Ratio	99.73	102.74	101.80	96.65	93.03

Source: S&P Global

The combined ratio for the P&C sector decreased to 93.03 percent in 2025 from 96.65 percent in 2024, reflecting the second consecutive year of underwriting profit.⁹¹ The 2025 combined ratio also marked by far its lowest level in the past 10 years. The combined ratio averaged approximately 99.6 over the past 10 years. Better personal lines results drove the improvement,

⁸⁷ Connecticut Office of Legislative Research, *State Requirements for Autonomous Vehicle Insurance*, July 16, 2026, <https://www.cga.ct.gov/2026/rpt/pdf/2026-R-0066.pdf>.

⁸⁸ Facts + Statistics: Products Liability,” Insurance Information Institute, <https://www.iii.org/fact-statistic/facts-statistics-product-liability>.

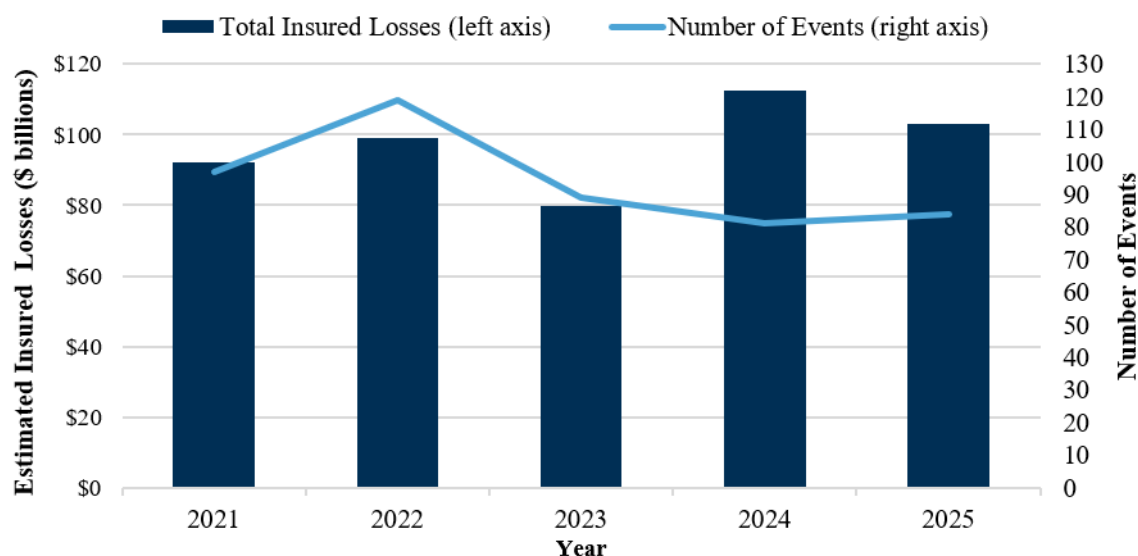
⁸⁹ See, e.g., Insurance Institute for Highway Safety/ Highway Loss Data Institute, “Waymo’s Driverless Cars Crash Less Often Than People,” news release, July 23, 2026, <https://www.iihs.org/news/detail/waymos-driverless-cars-crash-less-often-than-people>.

⁹⁰ S&P Global ratios include the policyholder dividend ratio because dividends represent a cash outlay.

⁹¹ A combined ratio of greater than 100 percent indicates that premiums did not cover losses and expenses in a given period (i.e., underwriting operations made a negative contribution to net income) and, therefore, that a company did not generate an underwriting profit. Investment income, realized capital gains/losses, and income taxes are not considered in the combined ratio.

as commercial lines results were similar to those in 2024. Personal lines recorded a second consecutive year of underwriting profit despite significant catastrophe losses as shown in Figure 26. Personal auto lines continued to recover from poor results in 2022, reflecting lower loss costs in physical damage and earned-premium growth that outpaced liability losses. Homeowners insurance lines benefited from nearly 12 percent growth in net premiums earned and an approximately 10 percent decline in net losses incurred.⁹² Positive reserve development (see discussion following Box 4) also contributed to the significantly improved combined ratio.

Figure 26: Estimated Insured Property Losses from U.S. Catastrophic Events



Source: “Facts + Statistics: U.S. Catastrophes,” Insurance Information Institute, <https://www.iii.org/fact-statistic/facts-statistics-us-catastrophes> (losses adjusted for inflation by the Insurance Information Institute)

Box 4: National Flood Insurance Program and the FEMA Review Council

Catastrophic events involving flooding may implicate the National Flood Insurance Program (NFIP), administered by the Federal Emergency Management Agency (FEMA).

On January 24, 2025, President Trump signed Executive Order 14180 establishing the Federal Emergency Management Agency Review Council.⁹³ The Council’s directive was to assess and report to the President on FEMA’s ability to respond effectively and impartially to disasters and recommend changes to improve its services in the national interest. In May 2026, the Council released its final report outlining several proposed key initiatives.⁹⁴ The following description of

⁹² NAIC, *Property & Casualty Insurance Industry 2025 Full Year Results*, <https://content.naic.org/sites/default/files/2025-annual-property-and-casualty-and-title-insurance-industries-analysis-report.pdf>.

⁹³ Exec. Order No. 14,180, 90 Fed. Reg. 8,743 (January 31, 2025).

⁹⁴ The President’s Council to Assess the Federal Emergency Management Agency (FEMA Council), *Final Report* (2026), https://www.dhs.gov/sites/default/files/2026-05/26_0507_fema%20review%20council_final%20report.pdf.

the report's recommendations, however, does not imply that FEMA will adopt them absent appropriate statutory, regulatory, budgetary, and interagency processes.

With respect to insurance and the NFIP, the Council's final report focused on how NFIP modernization could be structured within the U.S. system of state-based insurance regulation. The report discussed a potential centralized flood insurance marketplace that would require careful coordination among state insurance regulators, FEMA, Treasury, federal lending regulators, government-sponsored enterprises, and private insurers.⁹⁵ The report also discussed broader NFIP reform concepts, including continued refinement of risk-based pricing aligned with property-level flood risk, approaches to repetitive loss properties, and a phased transition of eligible policies to the private market where private capacity exists.⁹⁶ The report noted that NFIP reforms would likely require a phased approach, new or clarified statutory authorities, administrative rulemaking, continued engagement with state insurance regulators and market participants, and a preserved federal role for residual risk and coverage availability in areas where private market capacity is limited. The report noted that such reforms could support a more resilient and financially stable flood insurance system.⁹⁷

The report recommended that FEMA, in coordination with Treasury, state insurance commissioners, and the private insurance industry, should explore strategies for effectively operationalizing its insurance-related proposals.⁹⁸ In addition, the report recommended that FEMA, in coordination with Treasury, convene a roundtable of state insurance commissioners, federal lending regulators, consumer representatives, and relevant insurance industry stakeholders to analyze the potential reforms outlined in the report and assess how data, underwriting, and price information could be shared responsibly to maintain consumer protections consistent with statutory authorities and privacy requirements.

P&C sector reserve development was significantly favorable in 2025, much greater than in 2024 and greater than in any year over the past 10 years. Favorable reserve development occurs when current estimates of losses and loss-adjustment expenses attributable to prior accident years are lower than the reserves previously established for those losses, allowing excess reserves to be released, resulting in a corresponding increase in current-period underwriting income.⁹⁹ Figure 27 shows reserve development over the last 10 years.

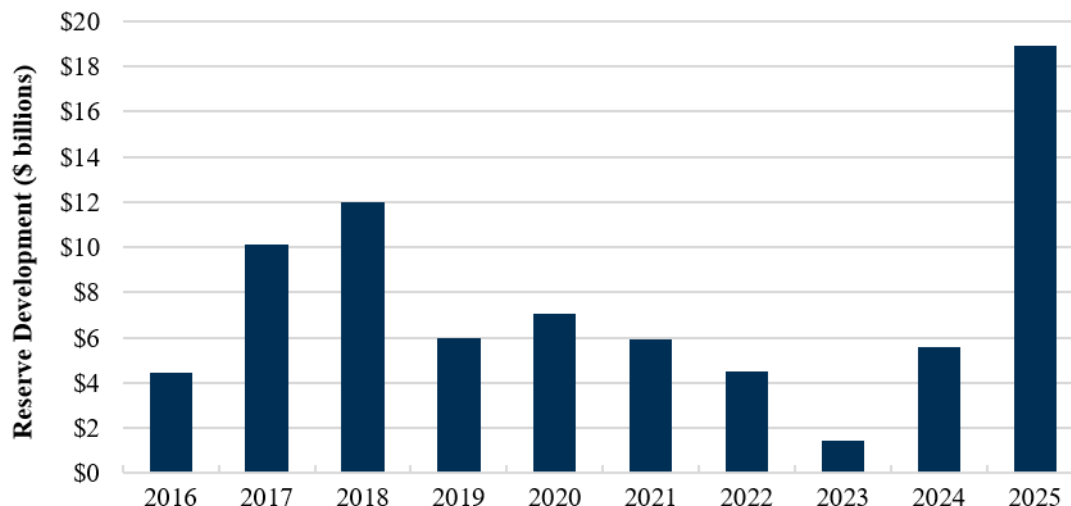
⁹⁵ FEMA Council, *Final Report*, 12, 49.

⁹⁶ FEMA Council, *Final Report*, 12, 48-50.

⁹⁷ FEMA Council, *Final Report*, 51.

⁹⁸ FEMA Council, *Final Report*, 51.

⁹⁹ NAIC, *Property & Casualty Insurance Industry 2025 Full Year Results*.

Figure 27: Total One-Year Reserve Development for the P&C Sector

Source: S&P Global (reflects total incurred net loss development for all accident years)

Box 5: Third Party Litigation Funding

Third party litigation funding (TPLF) was highlighted in last year's *Annual Report* and remains an ongoing issue within the overall P&C sector that is being evaluated and addressed in many jurisdictions that have implemented or proposed reforms.¹⁰⁰

Under TPLF agreements, outside investors provide capital for costs associated with tort or other litigation on a non-recourse basis in exchange for a percentage of the final settlement or judgment. Such litigation may often be defended and/or indemnified, in whole or in part, by insurers. Segments of the insurance industry have criticized TPLF, stating that it prolongs litigation and increases costs, particularly for general liability, products liability, and commercial auto insurance.¹⁰¹ Supporters of TPLF state that the use of TPLF allows individuals and small businesses to pursue their claims against larger, better funded defendants. The NAIC addresses TPLF in connection with its analysis of social inflation.¹⁰²

Since August 2025, four more states (California, New Hampshire, New York, and North Carolina) have adopted reforms concerning TPLF and two states (Arizona and Ohio) made

¹⁰⁰ See FIO, 2025 *Annual Report*, at Box 4.

¹⁰¹ See, e.g., Renee Kiriluk-Hill, "Insurers: Litigation Keeps Pressuring Commercial Auto Rates, Reserves, Underwriting," *A.M. Best*, February 24, 2026, <https://news.ambest.com/newscontent.aspx?refnum=272802&altsrc=23>; The Council of Insurance Agents & Brokers (CIAB), *Q1 2025 P&C Market Survey* (August 6, 2025), <https://www.ciab.com/api/protected-download/resource/5878>; CIAB, *Q2 2025 P&C Market Survey* (August 6, 2025), <https://www.ciab.com/api/protected-download/resource/5581>.

¹⁰² "Social Inflation," NAIC, last updated December 19, 2025, <https://content.naic.org/insurance-topics/social-inflation> (citing 2021 sources).

substantial changes to their TPLF laws.¹⁰³ As a result, 25 states now have laws or regulations governing TPLF.¹⁰⁴ Notable differences among the six new state TPLF laws exist. These differences include the types of lawsuits covered, the disclosure requirements, and other limits placed on litigation financing.

North Carolina became the first and only state to completely prohibit TPLF when it enacted the Prohibit Litigation Investments Act in June 2026.¹⁰⁵ The law does contain exceptions for the provision of legal services on a contingency basis, attorney advancement of litigation costs, insurance-related defense or indemnity obligations, certain nonprofit legal assistance, direct loans not tied to the outcome of litigation, family support, and personal or household support not used to pay litigation costs.¹⁰⁶

In August 2025, the Arizona Supreme Court amended one of its rules of civil procedure to require the disclosure of the existence of TPLF contracts to opposing parties.¹⁰⁷ This change applies to both consumer and commercial TPLF agreements. Like North Carolina's law, the amended Arizona civil procedure rule provides exceptions for the provision of legal services on a contingency basis, insurance-related defense or indemnity obligations, and direct loans not tied to the outcome of litigation.

Ohio repealed its previous law governing TPLF and enacted a new law with substantial additional TPLF requirements, covering both commercial and consumer TPLF.¹⁰⁸ The new law completely prohibits agreements with a person or entity that is not domiciled in the United States.¹⁰⁹ In addition, under the new law, TPLF funders are now obligated to register with the Ohio attorney general.¹¹⁰ The law also requires, once a claim covered by a TPLF agreement is resolved, that the attorneys representing a party to the agreement must disclose the existence and contents of the agreement to the Ohio attorney general, who will publish the contents of the agreement on the attorney general's public website after redacting all legally required confidential information.¹¹¹

¹⁰³ Ariz. R. Civ. P. 8(j), amended by Ariz. Sup. Ct. Order No. R-25-0003, August 28, 2025; California Consumer Legal Funding Act, CA Bus & Prof Code §§ 6250, *et seq.* (2025) (part of California AB 931 that was enacted October 10, 2025); New Hampshire Third-Party Litigation Funding Transparency Act, HB 1384 (enacted July 10, 2026) (to be codified as NH RSA, Ch. 294-F); New York Litigation Funding Act, N.Y. Financial Services Law, §§ 1001, *et seq.* (2026) (NY Assembly Bill 9442 enacted February 13, 2026); North Carolina Prohibit Litigation Investments Act, HB 315 (enacted June 22, 2026) (adds Article 52 to Chapter 66 of the North Carolina General Statutes); Ohio HB 105 (enacted July 7, 2026) (to be codified as OH Rev. Stat. §§ 1357.01, *et seq.*).

¹⁰⁴ See also FIO, 2025 Annual Report, 51 n. 107 (listing citations for 21 states in addition to those shown in prior footnote for California, New Hampshire, New York, North Carolina, and Ohio).

¹⁰⁵ North Carolina HB 315 §§ 66-511, *et seq.*

¹⁰⁶ North Carolina HB 315 § 66-512(3)a.-i.

¹⁰⁷ Ariz. R. Civ. P. 8(j).

¹⁰⁸ Ohio HB 105, 136th General Assembly (2025-2026).

¹⁰⁹ Ohio HB 105 § 1357.07.

¹¹⁰ Ohio HB 105 §§ 1357.02 & 1357.08.

¹¹¹ Ohio HB 105 §§ 1357.05(C) & (D), 1357.09(C) & (D).

California's and New York's laws cover only consumer TPLF contracts.¹¹² The laws in both states prohibit the funder from controlling or influencing any decisions regarding the consumer's legal claim or the settlement or resolution of such claim.¹¹³ These laws also contain exceptions from the definition of funding company for immediate family members and for an attorney representing the consumer on a contingency basis.¹¹⁴ New York's law contains several restrictions that are not in California's law. New York caps the amount of funding that a litigation funding company may provide at \$500,000.¹¹⁵ The litigation funding company also cannot receive more than reimbursement of the funded amount plus 25 percent of the gross proceeds of the consumer's legal claim.¹¹⁶ New York requires litigation funding companies to register with the New York Department of Financial Services and to file annual reports with the Department containing certain information regarding its litigation funding contracts.¹¹⁷

New Hampshire's law applies only to commercial TPLF contracts.¹¹⁸ Like North Carolina's law, the New Hampshire law also contains exceptions for the provision of legal services on a contingency basis, attorney advancement of litigation costs, insurance-related defense or indemnity obligations, certain nonprofit legal assistance, and direct loans not tied to the outcome of litigation.¹¹⁹ Like Ohio's law, New Hampshire's law prohibits commercial TPLF agreements funded by a foreign person, entity, or country, or any entity controlled by a foreign person, entity, or country.¹²⁰

Ten other states (Idaho, Iowa, Maryland, Massachusetts, Michigan, New Mexico, Pennsylvania, Rhode Island, South Carolina, and Washington) have considered legislation or amendments to their rules of civil procedure to regulate TPLF in 2026. As of August 1, 2026, only Massachusetts, Michigan, Pennsylvania, and South Carolina are still considering these actions.¹²¹

iii. P&C Investment Income

Net investment income for the P&C sector in 2025 increased year-over-year by 2.1 percent to \$89.7 billion, while cash and invested assets balances increased by 8.1 percent to \$2.7 trillion. The net yield on invested assets decreased by 19 basis points to 3.44 percent in 2025, as growth

¹¹² CA Bus & Prof Code §§ 6250, *et seq.*; New York Financial Services Law §§ 1001, *et seq.*

¹¹³ CA Bus & Prof Code § 6254(6); New York Financial Services Law § 1003(f).

¹¹⁴ CA Bus & Prof Code § 6250(d); New York Financial Services Law § 1001(c).

¹¹⁵ New York Financial Services Law § 1001(c).

¹¹⁶ New York Financial Services Law § 1002(a)(vi).

¹¹⁷ New York Financial Services Law §§ 1009, 1010.

¹¹⁸ New Hampshire HB 1384, Section 1, § 294-F:3.

¹¹⁹ New Hampshire HB 1384, Section 1, § 294-F:1.

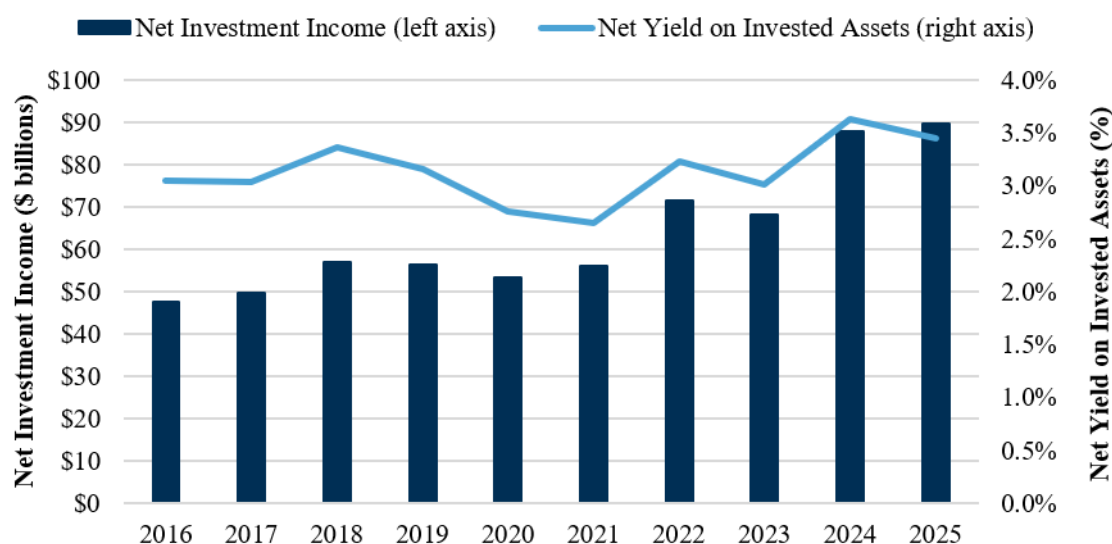
¹²⁰ New Hampshire HB 1384, Section 1, § 294-F:2.

¹²¹ See Massachusetts SB 680; Michigan HB 5281; Pennsylvania Proposed Amendment of Pa. R. Civ. P. 4003.2; South Carolina H. 4521. In 2026, the states of Idaho, Iowa, Maryland, New Mexico, Rhode Island and Washington introduced bills or proposals to regulate TPLF, but they either did not advance in committee or in the relevant chamber. See ID H0646, 2026 Regular Session; IA SF2419, 91st General Assembly (2025-2026); MD HB1298, 2026 Regular Session; MD SB894, 2026 Regular Session; NM HB 223, 2026 Regular Session; RI S2494, 2026 Regular Session; WA HB 2255, 2025-2026 Regular Session.

in cash and invested assets exceeded growth in net investment income. The 2025 net yield on invested assets was the second highest experienced in the last 10 years, following the 10-year high of 3.63 percent recorded in 2024. Bonds remained the principal source of P&C sector investment income in 2025, generating \$63.4 billion, or 58.3 percent of gross investment income earned, compared with \$55.6 billion and 54.5 percent in 2024. Earned income from “other invested assets” accounted for 7.4 percent of gross investment income earned in 2025, down from 8.6 percent in 2024 and remaining well below the 2021 and 2022 shares.

Figure 28 depicts the 10-year trends in net investment income earned and net yield on invested assets for the P&C sector. P&C insurers are less dependent than L&H insurers on net investment income to fund losses and expenses, given their shorter contract terms and shorter-tailed losses. Nevertheless, net investment income accounted for 8.4 percent of total P&C sector revenues in 2025, slightly above the 10-year historical average of approximately 8.2 percent.

Figure 28: P&C Sector Annual Net Investment Income and Net Yield on Invested Assets



Source: S&P Global

Net realized capital gains and losses are reported separately from net investment income earned; together they comprise net investment gain or loss and affect income. In 2025, the increase in net investment income was more than offset by a substantial decline in realized capital gains. Net realized capital gains were \$22.7 billion in 2025, a 71.2 percent decrease from the \$79.6 billion recognized in 2024. Realized capital gains in 2024 and 2025 were heavily influenced by one large insurance group that sold significant amounts of equities and Schedule BA assets.¹²²

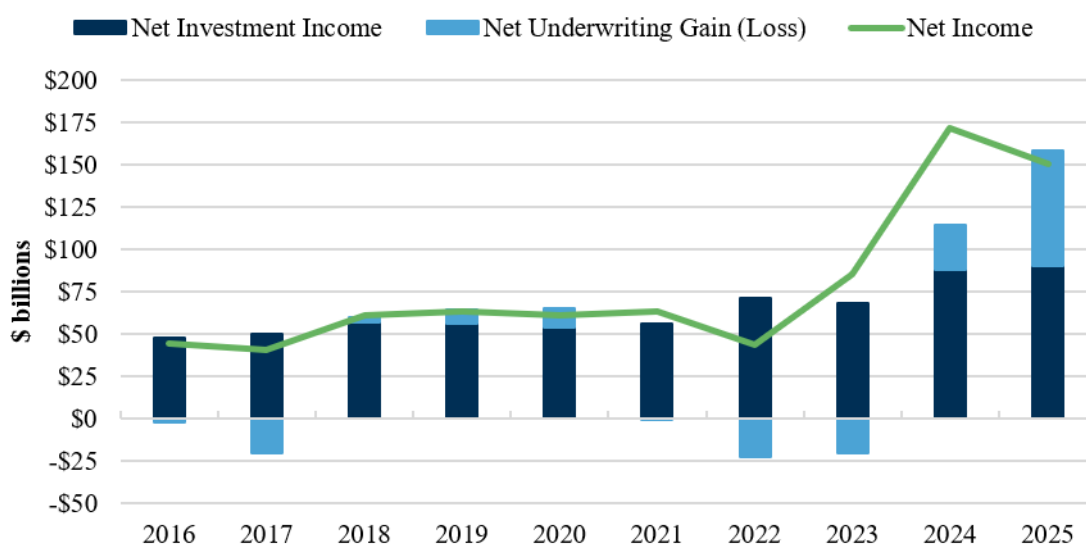
iv. P&C Net Income

The P&C sector’s net income decreased by 12.3 percent in 2025 to \$150.3 billion from the \$171.3 billion reported in 2024, as shown in Figure 29. A significant increase in underwriting income and a modest increase in net investment income were more than offset by a sharp decline

¹²² NAIC, *Property & Casualty Insurance Industry 2025 Full Year Results*.

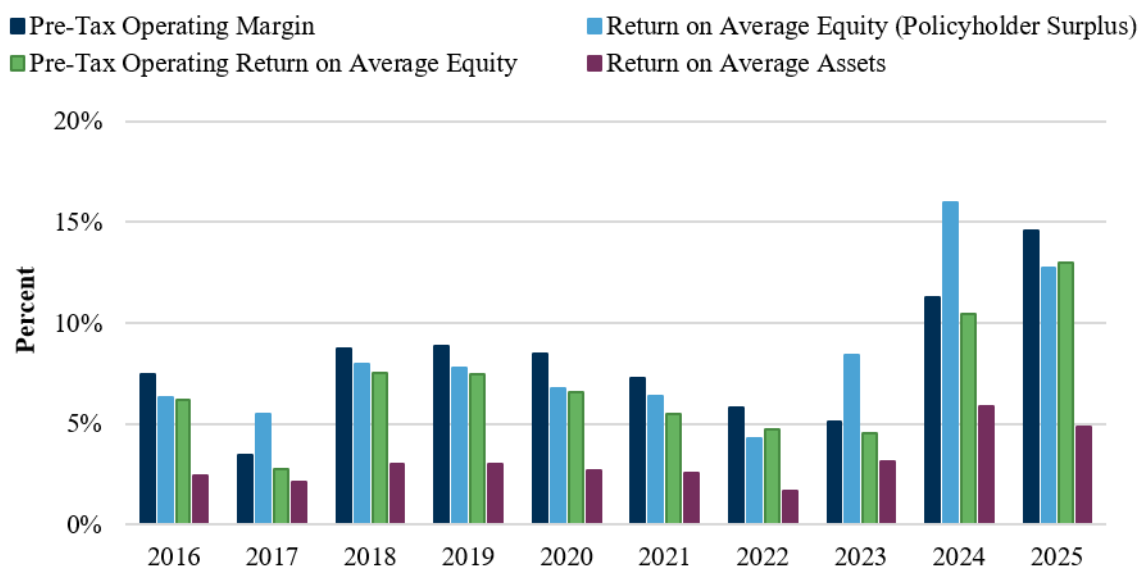
in net realized capital gains. Importantly, pre-tax operating income (before capital gains) increased by 36.9 percent to \$153.0 billion compared to \$111.8 billion in 2024, better reflecting strong underwriting results. Income after policyholder dividends but before federal income taxes declined 8.1 percent to \$176 billion in 2025 from \$191.4 billion in 2024. Absent the significant realized capital gains from Berkshire Hathaway in 2024, income after policyholder dividends but before federal income taxes would have shown about a five percent increase for 2025. The reported decline in pretax (after capital gains) income, together with a 28.2 percent increase in federal income taxes incurred, resulted in the 12.3 percent decrease in net income.

Figure 29: P&C Sector Net Income



Source: S&P Global

Figure 30 displays key operating ratios that measure returns for the P&C sector. The pre-tax operating margin and pre-tax operating return on equity reached new 10-year highs in 2025, while return on average equity and return on average assets declined from their 2024 highs. The 2025 pre-tax operating margin increased to 14.56 percent from 11.27 percent in 2024. The 2025 return on average equity of 12.73 percent was below the 15.97 percent experienced in 2024 but remained well above the approximately 8.21 percent average for the past 10 years. This decrease reflected the 12.3 percent decline in net income combined with continued growth in average policyholders' surplus.

Figure 30: P&C Sector Operating Ratios

Source: S&P Global

b) Financial Condition of P&C Insurance Sector

This section analyzes the financial condition of the P&C sector at the end of 2025 and examines trends over the last 10 years from 2016 through 2025, focusing on surplus, assets, and liquidity, with more detailed figures presented for the last five years.¹²³

i. P&C Policyholder Surplus

Policyholder surplus, a key indicator of an insurer's financial health and ability to meet unexpected claims and losses, strengthened significantly for the P&C sector in 2025, increasing 11.7 percent. A significant improvement in underwriting income, coupled with further gains in net investment income, resulted in improved balance sheet metrics for P&C insurers. P&C surplus was \$1.2 trillion at year-end 2025 compared to \$1.1 trillion at the end of 2024. This increase was driven largely by net income of \$150.3 billion, which included net realized capital gains of \$22.9 billion, that was bolstered by \$49.6 billion in net unrealized capital gains. These positive contributions were partly offset by stockholder dividends and other changes in surplus.

Figure 31 illustrates the sector's surplus position over the last five years and the contributions from asset portfolio growth.

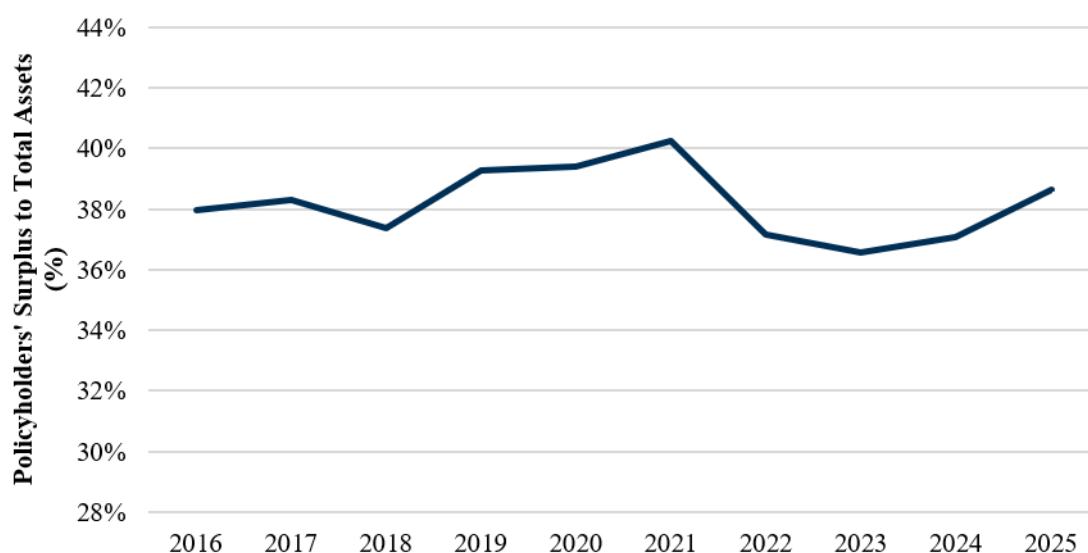
¹²³ Unlike the L&H sector analysis (see footnote 30), no reporting change affected the P&C database at S&P Global. As a result, 10-year trends and analysis are discussed, consistent with previous annual reports.

Figure 31: P&C Sector Surplus Position (\$ billions)

	2021	2022	2023	2024	2025
Total Assets	\$ 2,617	\$ 2,641	\$ 2,822	\$ 3,006	\$ 3,223
Annual Asset Growth	11.0%	0.9%	6.9%	6.5%	7.2%
Policyholders' Surplus	\$ 1,053	\$ 982	\$ 1,032	\$ 1,115	\$ 1,246
Annual PHS Growth	13.3%	(6.8%)	5.1%	8.0%	11.7%

Source: S&P Global

The ratio of policyholder surplus to total assets can be an indicator of surplus strength, as illustrated in Figure 32. The ratio continued to strengthen in 2025 from the 10-year low point in 2023, as surplus growth exceeded asset growth, although it was below the levels in prior years. These changes are, in part, due to recent growth in reserve leverage (see P&C leverage discussion below, in connection with Figure 33). Nevertheless, the sector has maintained a level of consistency against the possibility of unexpected losses, with the ratio averaging slightly over 38 percent over the last 10 years.

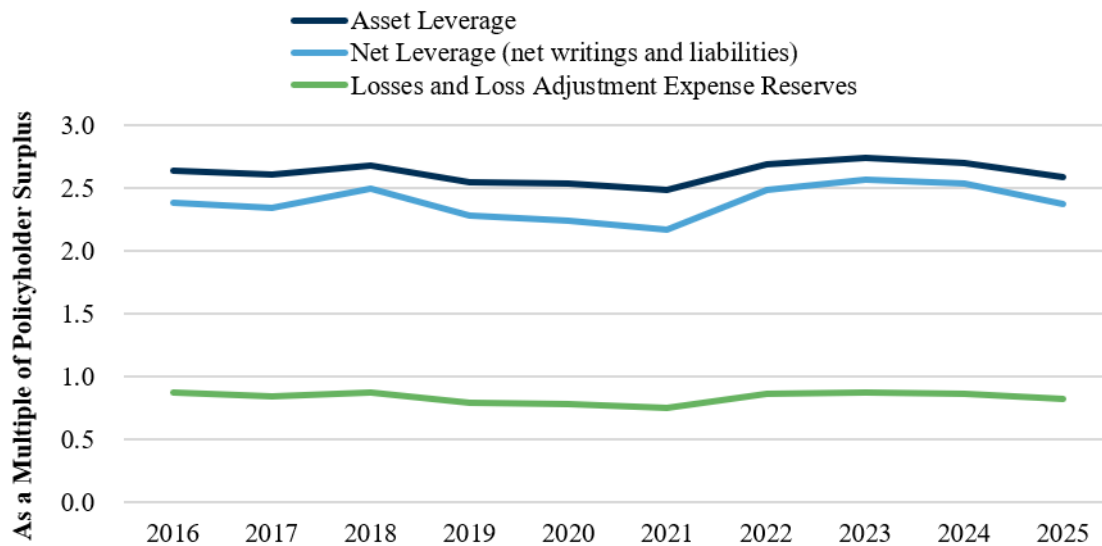
Figure 32: Strength of P&C Sector Policyholder Surplus

Source: S&P Global

The P&C sector reported a strong increase in its net underwriting gain in 2025, but a decrease in net realized capital gains reduced pre-tax income and net income compared to 2024. Continued profitability, aided by strong gains in net unrealized capital gains and higher investment income, supported the growth in P&C policyholder surplus.

As shown in Figure 33, the P&C sector has generally been managing its leverage levels effectively over the last 10 years.¹²⁴

¹²⁴ Increased leverage reduces the financial flexibility (and capital) that an insurer has available to address and mitigate market pressures, potentially widening risk exposure and impacting financial performance.

Figure 33: P&C Sector Leverage Ratios

Source: S&P Global

While they measure different exposures, the asset and net leverage ratios presented in Figure 33 have been closely aligned for most of the past 10 years. Maintaining underwriting discipline and addressing exposure accumulations are key factors supporting balance-sheet strength; other factors contributing to balance-sheet strength include the volatility and credit quality of the investment portfolio, reinsurance recoverables, and agents' balances.¹²⁵ For most of the last 10 years, the P&C sector has been growing surplus by effectively managing its vulnerabilities to market risks, including credit and interest rate risks. As Figure 33 illustrates, the asset leverage ratio declined to 2.59 in 2025 from 2.70 in 2024, while averaging 2.62 annually over the last 10 years.

The net leverage ratio (i.e., the ratio of net premiums written and liabilities to surplus) indicates the extent to which surplus supports the sector's underwriting volume and aggregate liabilities. Surplus pressures in 2022 and 2023 were the result of growth in the components of the numerator outpacing that of the denominator, resulting in a 10-year high of 2.57 in 2023 (as compared to a net leverage ratio that has averaged 2.39 annually over the last 10 years). Despite the increase in 2022 and 2023, and only a slight reduction in 2024, the P&C sector has generally sustained its financial capacity to support its business by successfully evaluating its underwriting risk and maintaining reserve adequacy. Notably, the ratio declined to 2.37 in 2025, in line with the longer-term average.

Premium growth in 2025 led to corresponding growth of loss and loss adjustment expense reserves. Loss and loss adjustment expense reserves were \$1.0 trillion and \$966.9 billion in

¹²⁵ Agents' balances refer to net admitted uncollected premiums and agents' balances in the course of collection, including direct and group billed uncollected premiums; amounts collected but not yet remitted to home office; accident and health premiums due and unpaid; life insurance premiums and annuity considerations uncollected on in-force business (less premiums on reinsurance ceded and less loading); and title insurance premiums and fees receivable. Reinsurance balances payable is not deducted.

2025 and 2024, respectively, amounting to year-over-year growth of 5.3 percent and within the range of annual growth reported in the previous several years. At year-end 2025, the ratio of loss and loss adjustment reserves to policyholder surplus was 0.82, which was lower than the 0.87 observed at year-end 2024. Since 2022, this ratio has been consistent with the trend observed in the years prior to 2019 and before the effects of the COVID-19 pandemic, when lower ratios were observed. This may suggest that the P&C sector in the aggregate has generally remained consistent in its management and estimation of reserves to cover potential losses and adjustment costs arising from claims made on policies underwritten.

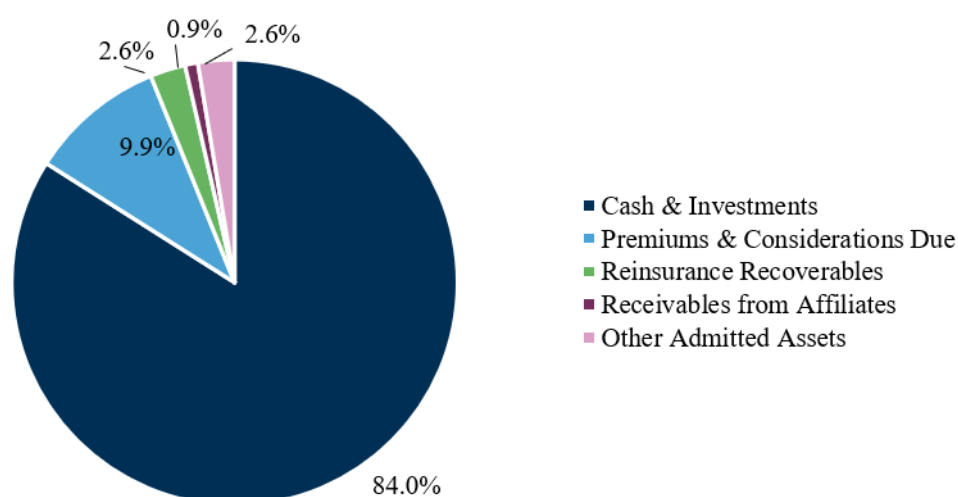
ii. P&C Assets

The P&C sector's capital position has been stable over the last 10 years, supported by year-over-year asset growth and sound asset-liability matching. Although the P&C sector introduced greater complexity in its bond portfolio beginning in 2023, overall investment trends suggest an improvement in asset quality.

P&C assets remained on a growth trend in 2025, rising by 7.2 percent, following nearly seven percent increases in both 2024 and 2023. At the end of 2025, total P&C sector assets stood at \$3.2 trillion. Annual growth of slightly over six percent on average over the last 10 years has helped to sustain the P&C sector's financial position.

The structure of the P&C sector's asset portfolio has remained largely constant for the last 10 years. Cash and invested assets have consistently been the largest component of total assets for the P&C sector, followed by premiums and considerations due. More specifically, on average, over the last 10 years, about 84 percent of the sector's asset portfolio has been comprised of cash and invested assets, reflecting the ability of the sector's balance sheet to pay claims as they come due.

Figure 34 illustrates the composition of the P&C sector's assets at year-end 2025, which largely mirrors that of prior years.

Figure 34: Composition of P&C Sector Asset Portfolio

Source: S&P Global

Asset allocations within the P&C sector over the last 10 years have remained largely constant, with bonds and equities together making up more than 81 percent of the aggregate investment portfolio every year since 2016. Exposure to common stocks increased as insurers took less profits as compared to 2024. Bonds continued to represent approximately 55 percent of cash and invested assets. Cash and short-term investments increased modestly in amount in 2025, but declined slightly as a share of cash and invested assets, and the share of other invested assets also declined slightly, as compared to 2024.

Figure 35 details the P&C sector's asset allocations from 2021 through 2025. Similar to L&H investment allocations, over the last 10 years, bond holdings for the P&C sector have been on a generally downward trajectory. Bonds averaged close to 60 percent of the sector's investment portfolio from 2015 to 2019, as compared to just under 55 percent on average from 2021 to 2025.

Figure 35: Composition of P&C Sector Investment Portfolio

	2021	2022	2023	2024	2025
Bonds	53.14%	55.54%	54.75%	55.22%	55.13%
Preferred Stocks	0.78%	0.75%	0.65%	0.61%	0.63%
Common Stocks	28.63%	26.21%	27.34%	23.94%	24.90%
Mortgage Loans	1.21%	1.34%	1.37%	1.26%	1.18%
Real Estate	0.60%	0.59%	0.54%	0.51%	0.49%
Derivatives	0.03%	0.06%	0.10%	0.08%	0.05%
Cash & Short-Term Investments	7.06%	7.14%	8.39%	11.56%	10.90%
Other Investments	8.55%	8.39%	6.85%	6.83%	6.71%
Total Cash & Invested Assets	100%	100%	100%	100%	100%

Source: S&P Global

The composition of the investment portfolio detailed in Figure 35 generally aligns with the risk management practices employed by the sector to address both the shorter-term obligations of some P&C lines (such as auto claims) and longer-tailed liabilities (such as general liability, medical malpractice, and workers' compensation). The investment portfolio has shown year-over-year growth in bond holdings, as the predictability of cash flows produced by fixed-income securities can be better aligned with policyholder obligations and other business needs. Annual growth of bond holdings has accelerated in the last three years, averaging nearly seven percent as bonds grew to \$1.5 trillion in 2025 from \$1.2 trillion in 2021. From 2015 to 2019, by contrast, the P&C sector expanded its bond holdings by only about three percent on average.

Total long-term bonds were \$1.5 trillion at year-end 2025, an increase of 7.9 percent from the previous year end.¹²⁶ Corporate bonds continued to comprise the largest share of the sector's long-term bond holdings at 38.2 percent of the total, followed by ABS at 30.0 percent.¹²⁷ Municipal bonds, once the second-largest category of long-term bonds, were reported at 13.7 percent of total bonds at year-end 2025. Implementation of the NAIC's Principles-Based Bond Definition had a negligible impact on the P&C sector compared to the L&H sector. S&P Global recently estimated that approximately \$1.8 billion of P&C sector securities formerly classified as long-term bonds were moved to other investment schedules due to the definition change.¹²⁸

The P&C sector's asset and liability management practices are demonstrated by the distribution of maturities in its bond book. For each year since 2016, an average of about 55 percent of bonds in the sector's portfolio had maturities of less than five years, while an average of 30 percent had terms ranging between 5 to 10 years. During this 10-year period, P&C insurers allocated significantly less of their bond portfolio to longer-term bonds, with an average of about 13 percent of bonds having maturities greater than 10 years. In 2025, 14.0 percent of the sector's bond portfolio was allocated to holdings with terms of at least 10 years, at the same level as 2024.

Importantly, the bond portfolio of P&C insurers has consistently been of high credit quality, with at least 95 percent designated as NAIC 1 and 2 bonds (or investment grade) since 2015. However, unlike the L&H sector, the mix of investment grade bonds has slowly shifted toward NAIC 1 (AAA to A-) bonds over the last 5 years, reaching 80.2 percent of total bonds in 2025.

Other investment trends have been observed in the sector. From 2016 to 2021, public bonds as a percent of total bonds were consistently declining as exposure to privately placed bonds grew at a higher pace. Between 2021 and 2025, however, the rate of growth of the two categories became closer, and privately placed bonds leveled off at 19 to 20 percent of total bonds, in contrast to only about 13 percent in 2016. Publicly traded bonds make up the remaining

¹²⁶ Beginning with reporting year 2025, ABS have been separated from "issuer credit obligations," which have also been more granularly sub-categorized. One result of this recategorization is that the former "industrial and miscellaneous" bond category that included corporate bonds as well as some ABS and other asset types is now much less nebulous. However, for purposes of this analysis, when referring to "bonds," this Report includes the total of "issuer credit obligations" and ABS.

¹²⁷ For the 2025 reporting year, the NAIC completely revamped the fixed income investments categories reported in the Annual Statements, and historical data is not yet available, so comparisons to prior years' data cannot be made.

¹²⁸ Rupawala, *et al.*, "2026 US Insurance Investments Market Report: A Regulatory Redesign."

approximately 80 percent of total bonds. Private placements comprised 20.8 percent or \$353.1 billion of the aggregate bond portfolio (including short-term investments) at year-end 2025, compared to \$313.2 billion at year-end 2024. Public bonds are usually traded actively, so market prices are readily available, and the greater transparency associated with disclosure requirements also supports risk assessment. Private bonds, on the other hand, provide less visibility to investors but offer an illiquidity premium in exchange.

Strong equity markets in 2025 increased common stock holdings for the P&C sector by 12.5 percent in 2025, a turnaround from the 6.0 percent year-over-year decrease recorded in 2024. Common stock investments rose to \$674.1 billion in 2025, up from \$599.4 billion in 2024. With a 24.9 percent share at year-end 2025, common stock investments continued to be represented significantly in P&C insurers' cash and invested assets. Common stock holdings have averaged nearly 25 percent of the sector's investment portfolio each year since 2016.¹²⁹ Total mortgage loans were \$32.0 billion at year-end 2025, up 1.5 percent from 2024, and accounted for 1.2 percent of cash and invested assets. Cash and short-term investments increased 2.0 percent to \$295.1 billion, or 10.9 percent of cash and invested assets, compared to \$289.4 billion, or 11.6 percent of cash and invested assets at the end of 2024. Favorable short-term interest rates that match well with P&C liabilities and relatively high equity valuations combined to keep this allocation relatively high. Other invested assets (found on Schedule BA of statutory financials) such as alternative investments, hedge funds, joint ventures, and the like, continued to lose share of assets in 2025 following several years of diminishing returns.

As seen for the L&H sector, the P&C sector in 2025 appeared to continue rebalancing its investment profile in response to new market conditions. Accordingly, the higher interest rate environment translated into higher new-money yields for P&C investment portfolios as well as a continued willingness to trade incremental liquidity for incremental yield. With relatively high cash and short-term investment balances, the P&C sector appears positioned to take advantage of longer-term investment opportunities as they are presented.

iii. P&C Liquidity

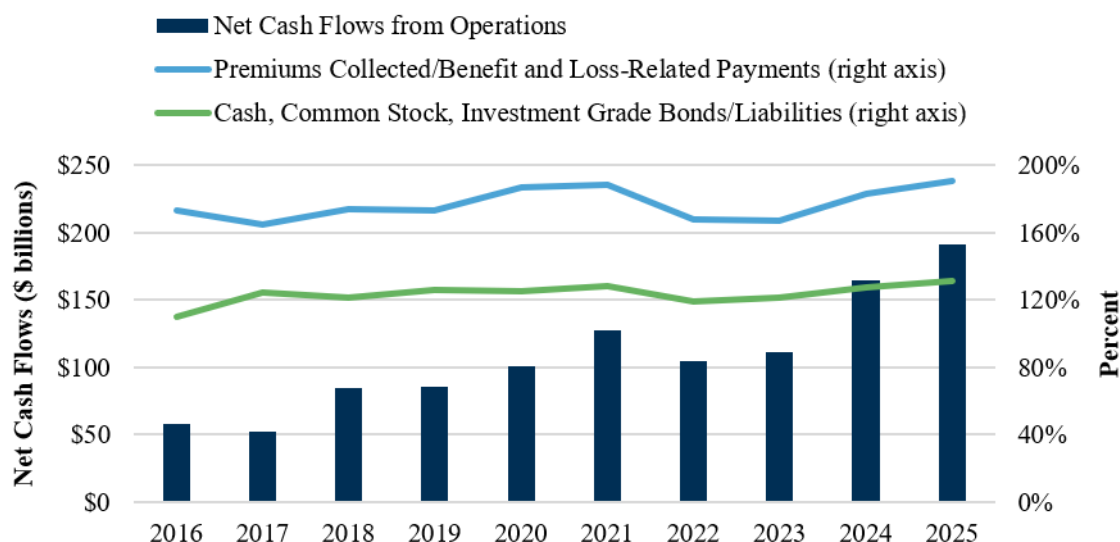
The potential inability to secure adequate funding due to claims volatility, asset complexity, and market disruptions can expose P&C insurers to liquidity risk. For the U.S. P&C sector in 2025, however, there was continued evidence of improved liquidity levels, as insurers maintained a predominantly investment grade bond portfolio and several credit risk exposures declined relative to total assets and surplus. However, dollar amounts of common stocks, Schedule BA assets, below-investment grade bonds, and bonds at or near default increased.

¹²⁹ Two companies' (Berkshire Hathaway and State Farm) P&C operations have historically held outsized positions in common stock investments. Removing them from the calculation, common stocks only represented almost 11 percent of the sector's aggregate cash and invested assets at the end of 2025, based on data from S&P Global and FIO calculations.

Cash Flows

Figure 36 illustrates some improvement in P&C sector liquidity metrics relative to their 2024 performance, notably P&C net cash flows from operations and the strength of 2025 premiums versus loss payments.

Figure 36: A View of P&C Sector Liquidity



Source: S&P Global

Net cash flows from operations in 2025 of \$190.9 billion reflected an increase of 15.7 percent year-over-year from the \$165.0 billion reported in 2024, contributing to growth in cash and short-term investments. Cash and short-term investments rose by \$5.7 billion to \$295.1 billion at year-end 2025, potentially providing expanded coverage of the sector's liabilities.

Annual growth in benefit and loss-related payments of 1.1 percent was significantly exceeded by the 5.1 percent growth in net premium receipts, further easing a minor strain on the ratio that occurred in 2023. As shown in Figure 36, premiums collected, net of reinsurance, were approximately 1.9 times benefit and loss-related payments at year-end 2025 compared to 1.8 times at the prior year-end.¹³⁰

P&C insurers implemented significant premium rate increases in 2023 and 2024 to address inflationary pressures, increased natural catastrophe losses, and other loss and expense concerns. Net premium earned grew by 6.3 percent for 2025 as a result, which supported earnings and liquidity for the sector.

¹³⁰ The liquidity analysis here is based on cash inflows and outflows from operating activities—premiums that were collected as well as losses paid on all lines of business during the year (excluding loss adjustment expenses paid). This contrasts with the income statement analysis that presents a view of profitability, reflecting premiums earned and written as well as incurred loss and loss adjustment expenses, and other underwriting expenses.

Credit Quality

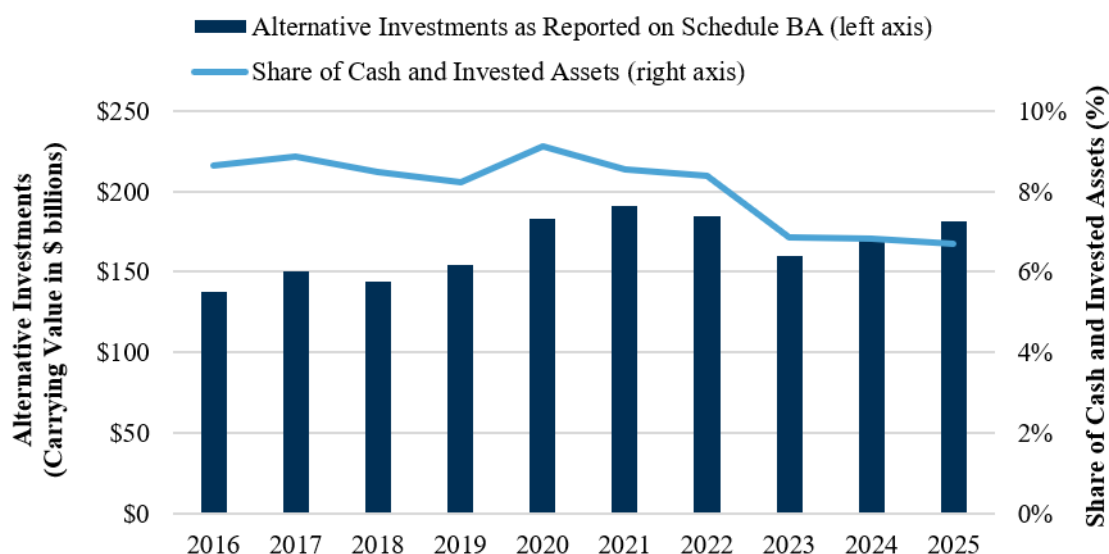
As noted in [Section II.A.3.b.i](#), elevated interest rates and strong equity markets have contributed to the changes in P&C asset allocations in the last few years. With attractive investment-grade yields still available, the P&C sector continued to generally migrate from riskier assets in 2025 in terms of asset allocation and risk to surplus, potentially raising the credit quality of its investment portfolio and potentially bolstering its liquidity profile.

Investment-grade bonds—the bulk of the bond portfolio—rose by 7.2 percent in 2025 and remained on a path of year-over-year growth since 2015. Non-investment grade bond (NAIC 3-6) holdings of \$69 billion increased 3.7 percent from the nearly \$67 billion reported in 2024. Non-investment grade bonds’ share of policyholder surplus, however, continued to decline, decreasing to 5.5 percent of policyholders’ surplus in 2025 from 6.0 percent in 2024. While bonds that were at or near default grew by 23.8 percent for the sector to \$10.4 billion in 2025, these made up only 0.83 percent of policyholder surplus at year-end 2025, a slight increase compared to the year-end 2024 measure of 0.75 percent.

Complexity

Figure 37 illustrates the P&C sector’s alternative investment (as reported on Schedule BA) allocations between 2016 and 2025. The amounts in 2025 increased by 6.2 percent to \$181.7 billion from the \$171.1 billion reported in 2024. However, the allocation to Schedule BA assets decreased slightly to 6.7 percent of cash and invested assets from 6.8 percent in 2024. The P&C sector’s exposure to alternative investments comprised 30.0 percent of the combined P&C and L&H sectors’ Schedule BA exposure in 2025, down slightly from 30.9 percent in 2024 and continuing a downward trend.¹³¹ Joint ventures continued to comprise the bulk of Schedule BA exposures for P&C insurers in 2025.

¹³¹ Jennifer Vento and Michele Wong, “Double-Digit Increase in U.S. Insurers’ Other Long-Term Invested Assets at Year-End 2025,” *NAIC Capital Markets Special Report*, (May 2026), <https://content.naic.org/sites/default/files/capital-market-schedule-ba-ye2025.pdf>.

Figure 37: P&C Sector Alternative Investments

Source: S&P Global

As described above, there is evidence of enhanced credit quality in the P&C sector's asset portfolio as well as signs of heightened complexity. ABS constituted a significant share of policyholder surplus at 35.9 percent at year-end 2025, up slightly from about 35 percent at year-end 2024.¹³² As noted in [Section II.A.2.b.iii](#), ABS can be more complex products, which are subject to potentially greater liquidity and valuation risks—all of which may make them more vulnerable to market pressures (especially during periods of economic dislocation) as compared to traditional corporate and government bond holdings. Total ABS held by the P&C sector were \$447.2 billion in 2025.

Notwithstanding the exposure to ABS, high-quality bonds still make up the overwhelming percentage of the P&C sector's portfolio of fixed-income securities, representing 95.9 percent of total bonds, which contributes to the strength of the sector's liquidity profile. Investment-grade bonds and short-term investments were \$1.6 trillion and \$1.5 trillion in 2025 and 2024, respectively. They have comprised at least 95 percent of the P&C sector's bond portfolio in each of the last 10 years and averaged close to 60 percent of aggregate cash and invested assets. Moreover, the ratio of investment-grade bonds to policyholder surplus was 1.31 at year-end 2025 (compared to 1.36 at year-end 2024), illustrating the sector's continuing quality of capital.

Affiliated Exposures

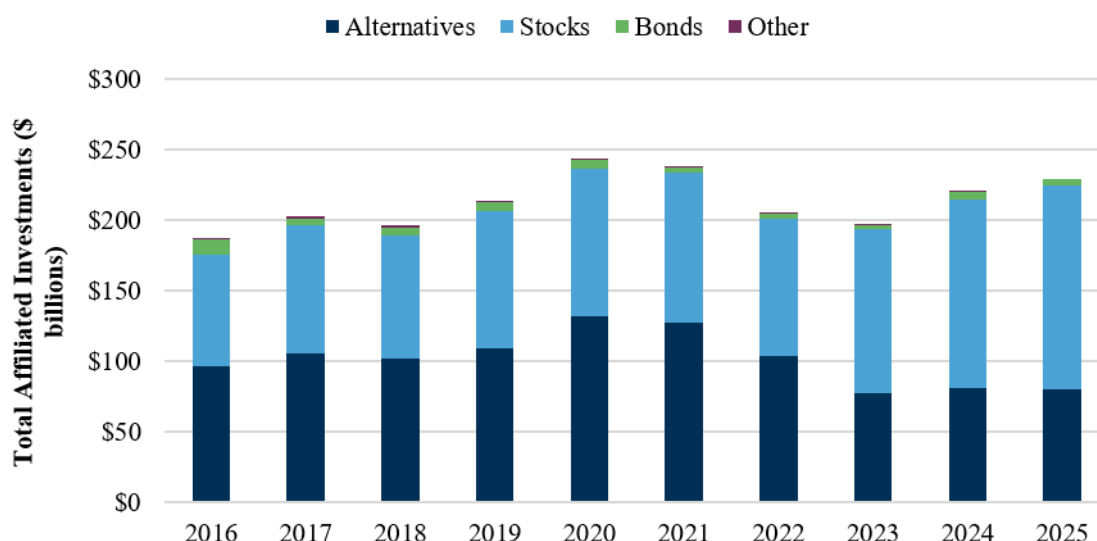
As in the case of the L&H sector, affiliated holdings can be a potential source of liquidity risk for the P&C sector. In addition to potential liquidity risk, the interconnectedness of these holdings can also have potential adverse implications for the holder through the amplification of external shocks and potential contagion risk. P&C affiliated holdings were \$229.0 billion and \$219.7 billion in 2025 and 2024, respectively, and their growth averaged about three percent annually between

¹³² ABS include financial asset-backed securities (self-liquidating), financial asset-backed securities (not self-liquidating), and non-financial asset-backed securities.

2016 and 2025. As a share of the sector’s investment portfolio, affiliated cash and investments constituted 8.5 percent in 2025 and 8.8 percent in 2024.

Figure 38 shows the growth and shift in the composition of affiliated investments in the P&C sector over the past 10 years. Following several years on a declining trend, total affiliated investments increased by 11.8 percent in 2024 and 4.2 percent in 2025. Affiliated alternatives, including joint ventures, surplus debentures, collateral loans, private equity funds, and residual interests, totaled \$80.0 billion in 2025 as compared to \$81.0 billion in 2024. Affiliated common stock was the largest category of affiliated investments in 2025 at \$135.1 billion, up 8.0 percent from 2024.

Figure 38: P&C Sector Affiliated Exposures



Source: S&P Global

Note: “Other” consists of cash and short-term investments and mortgage loans.

While affiliated investments continue to be monitored by industry and regulators, the overall positive level and growth trends of unaffiliated holdings may mitigate the risks described above. Unaffiliated cash and invested assets averaged two times surplus levels each year between 2021 and 2025. Moreover, unaffiliated bond holdings accounted for close to two-thirds of the P&C sector’s unaffiliated investment portfolio on average in each of the last 10 years, contributing stable cash flows against underwriting results.

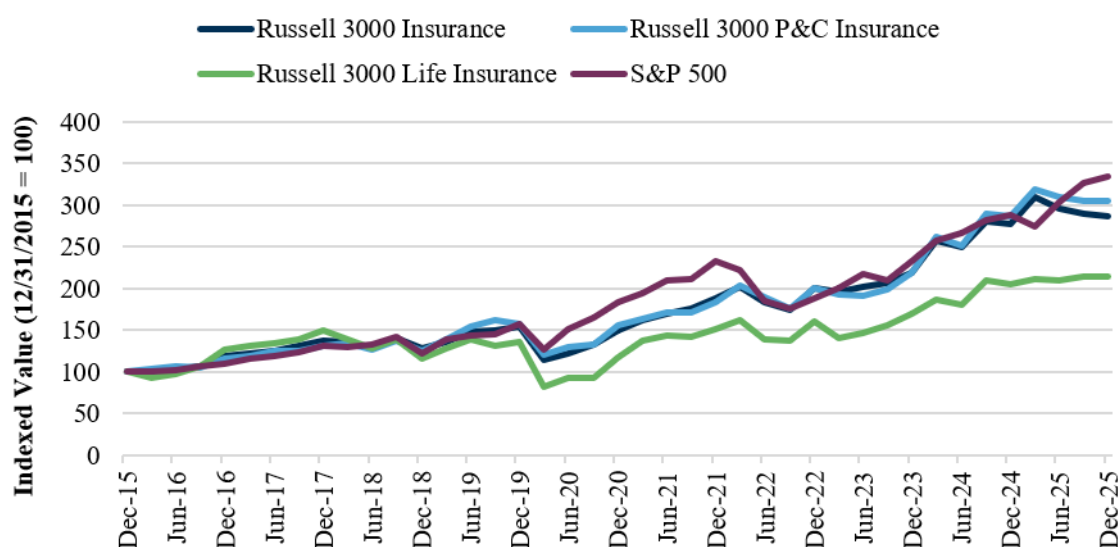
4. Market Performance

Stock price movements are indicators of investors’ perceptions about the recent financial results and future financial prospects of a firm, an industry sector, or, in a broader context, the general economy. The following discussion considers the price performance of stock indices comprised

of publicly traded companies for the broader domestic insurance industry and the L&H and P&C sectors, as compared to the performance of the S&P 500, between 2016 and 2025.¹³³

For the 10-year period ending December 31, 2025, the broader insurance industry, L&H sector, and P&C sector stock price indices each underperformed the S&P 500, as shown in Figure 39. In that period, the broader insurance industry index gained 186.8 percent, the L&H index appreciated 114.1 percent, the P&C index gained 205.8 percent, and the S&P 500 increased by 234.9 percent. Among the insurance indices, the P&C sector generated the strongest long-term price return, outperforming both the broader insurance industry and the L&H sector, while the L&H sector recorded the lowest cumulative price gain over the 10-year period. Similarly, in 2025 all three insurance indices lagged the broad market, with the broader insurance industry posting the weakest annual price gain at 3.3 percent, compared to gains of 4.1 percent for the L&H stock index and 6.4 percent for the P&C stock index. By comparison, the S&P appreciated 16.4 percent in 2025.

Figure 39: Insurance Industry Stock Price vs. S&P 500



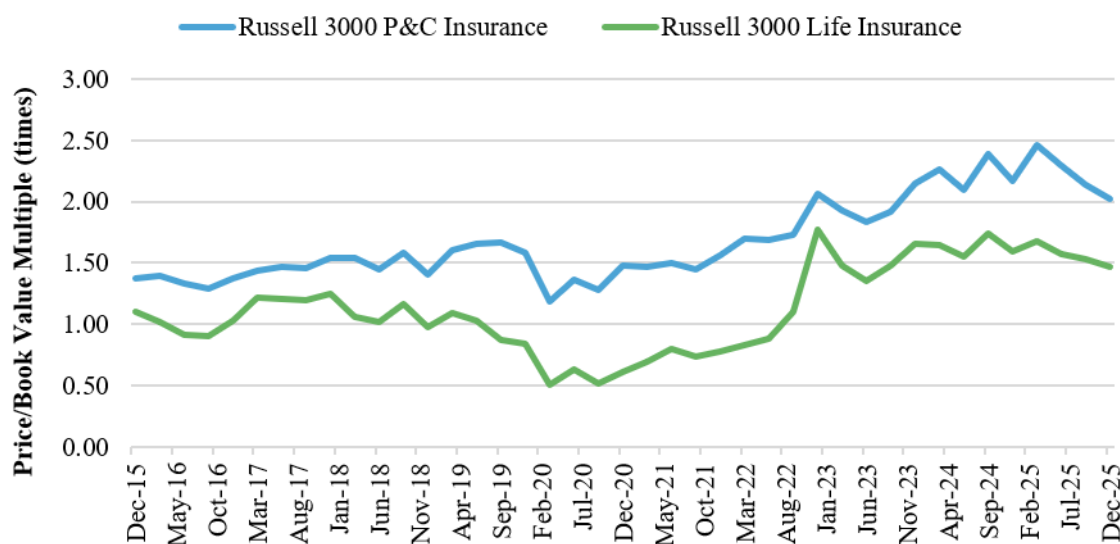
Source: Bloomberg LP and S&P Global

The price-to-book value multiple, which compares on a per-share basis the market value of a firm to its book value (i.e., reported stockholders' equity on its balance sheet), is a commonly used metric to measure valuation. If a share of an insurer's stock is selling for less than its book value per share, the market is valuing the firm at less than its assets minus its liabilities (net worth); the converse is true if the stock is trading at a premium to its book value. Figure 40 compares L&H sector and P&C sector price-to-book value ratios from year-end 2015 through

¹³³ In 2023, S&P Global discontinued the SNL insurance stock price indices used in previous FIO annual reports. To capture a representative sample of insurance company equities, beginning with the 2023 Report, FIO has used the Russell 3000 P&C Insurance Index, the Russell 3000 L&H Insurance Index, and the Russell 3000 Insurance Index; this data is sourced from Bloomberg, LP. For comparison to the broad market, the S&P 500 Index continues to be used and is sourced from S&P Global. The publicly traded companies included in these indices do not exactly correspond to the legal entity populations included in the statutory financial analyses elsewhere in this Report.

year-end 2025. At the end of 2025, both sectors continued to trade at premiums to book value, although those premiums narrowed from the prior year. The index of stocks of L&H insurers stood at 1.46 times book value, compared to 1.59 times at the end of 2024 and 1.65 times at the end of 2023. The index of stocks of P&C insurers declined to 2.03 times book value, compared with 2.17 times at the end of 2024 and 2.15 times at the end of 2023. Despite the decline, the P&C sector continued to trade at a notably higher valuation multiple than the L&H sector. The price to book ratio for the L&H sector had been at a discount since mid-2019 and returned to a premium in the latter half of 2022 as interest rates began to rise, though the premium has narrowed in each of the past two years.

Figure 40: Insurer Price/Book Value Ratios



Source: Bloomberg LP

5. Domestic Insurance Market Outlook

Full year 2026 insurance industry results will be reviewed by FIO in next year's *Annual Report on the Insurance Industry*. For the insurance industry, domestic GDP growth of 2.1 percent in 2025 provided an environment that contributed to premiums growth in 2025.¹³⁴ The insurance industry continued its generally strong performance over the first half of 2026, with GDP growth coming in at 2.1 percent for the first quarter and an estimated 1.5 percent for the second quarter.¹³⁵ Further, 2025 was a year of elevated but stable interest rates that contributed to the

¹³⁴ Bureau of Economic Analysis, "Gross Domestic Product, 4th Quarter and Year 2025 (Third Estimate)," news release, April 9, 2026, <https://www.bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-4th>.

¹³⁵ Bureau of Economic Analysis, "Gross Domestic Product (Advance Estimate), 2nd Quarter 2026," news release, July 30, 2026, <https://www.bea.gov/news/2026/gdp-advance-estimate-2nd-quarter-2026>.

growth and profitability of insurers. Interest rates, as measured by the yield on the 10-year U.S. Treasury note, began 2026 at 4.18 percent and ended at 4.38 percent on June 30, 2026.¹³⁶

In the L&H sector, first quarter 2026 net premiums and annuity considerations decreased by 16.6 percent, largely due to a significant drop in annuity sales from Voya Retirement Insurance and Annuity Company.¹³⁷ Nonetheless, annuity sales continued to grow over the first half of 2026, increasing approximately two percent year-over-year to a new record of an estimated \$231 billion. Notably, annuity sales of an estimated \$124 billion in the second quarter set a new quarterly record.¹³⁸ Other product lines (e.g., individual whole life, term life, and variable universal life) also exhibited premiums growth.¹³⁹ Despite expense increases, second quarter 2026 operating income for most large L&H insurers increased compared to the second quarter of 2025. Continued economic expansion and the interest rate environment could support annuity sales for the remainder of 2026 as consumers continue to look for retirement income solutions. The current interest rate environment may also lead to higher net investment income and improve net income. Despite elevated interest rates, the sector will likely continue to seek increased investment yield, thereby continuing to expose surplus to potential increased liquidity and credit risks. If asset growth continues to outpace gains in surplus, there could be additional pressure on the surplus cushion. The potential for further unrealized losses on bonds in a higher interest rate environment could also put pressure on surplus. Risk transfers through reinsurance continued over the first half of 2026, including blocks of long-term care insurance as well as blocks of legacy capital-intensive business, suggesting that use of asset-intensive, or funded, reinsurance will likely continue for the rest of 2026. On the M&A front, several large deals announced in early 2026 remain pending.

Continuing the strong underwriting results experienced over much of 2025, the P&C sector again posted strong first half 2026 results, benefiting from below-average catastrophe losses and further underwriting gains in personal auto lines.¹⁴⁰ The first quarter 2026 combined ratio of 91.9 reflected lower loss ratios across most major personal lines of business as well as non-liability commercial multi-peril and commercial auto physical damage.¹⁴¹ The second quarter combined ratio of approximately 93.3 percent was the lowest in a second quarter in almost 20

¹³⁶ Source: S&P Global.

¹³⁷ A.M. Best, *First Look: Three-Month 2026 U.S. Life/Annuity Financial Results*, (2026), https://news.ambest.com/research/DisplayBinary.aspx?TY=P&record_code=365695.

¹³⁸ LIMRA, “U.S. Annuity Sales Set New Quarterly Record, Totaling \$123.9 Billion in the Second Quarter of 2026,” news release, July 27, 2026, [https://www.limra.com/en/newsroom/news-releases/2026/limra-u.s.-annuity-sales-set-new-quarterly-record-totaling-\\$123.9-billion-in-the-second-quarter-of-2026/](https://www.limra.com/en/newsroom/news-releases/2026/limra-u.s.-annuity-sales-set-new-quarterly-record-totaling-$123.9-billion-in-the-second-quarter-of-2026/).

¹³⁹ LIMRA, “U.S. Individual Life Insurance Sales Continue Growth Trend in the Second Quarter, Led by Whole Life and VUL,” news release, August 11, 2026, <https://www.limra.com/en/newsroom/news-releases/2026/limra-u.s.-individual-life-insurance-sales-continue-growth-trend-in-the--second-quarter-led-by-whole-life-and-vul/>

¹⁴⁰ Tim Zawacki, *et al.*, “Run of Record Underwriting Profits Extends to Fifth Quarter for U.S. P&C Industry,” S&P Global Market Intelligence, August 21, 2026, <https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=105201796&KeyProductLinkType=18>.

¹⁴¹ Jason Woleben, *et al.*, “Outsized P&C Profits Persist as Q1 Underwriting Profit Hits New High, S&P Global Market Intelligence, May 20, 2026, <https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=101830338&KeyProductLinkType=21&redirected=1>.

years, driven by lagging effects of rate increases, relatively light catastrophe losses, and a lower loss ratio in personal auto versus the second quarter of 2025.¹⁴² The sustainability of the recent levels of underwriting profit remains to be seen, as cost pressures may increase losses, and catastrophes could return to higher levels. Further, premium rate increases in personal lines have abated and come under consumer pressure, in some isolated cases leading to rate reductions. Nonetheless, the P&C sector may continue to benefit from continued economic growth and near-term interest rates, boosting investment income and earnings. Strong underwriting results over the past year-and-a-half could result in increased capital spending (e.g., AI infrastructure) and/or policyholder dividends, or possibly more widespread premium rate reductions.

The NAIC and state regulators are taking steps intended to enhance policyholder protection for the L&H sector through regulatory initiatives intended to provide greater transparency into insurer investments and offshore reinsurance activities, align complexity risk of assets with the existing capital framework, address affiliated investments and potential conflicts of interests, and improve the capital framework. This work is expected to continue throughout 2026.

B. Capital Markets Activity

1. Financings

The U.S. insurance industry continued to access the capital markets throughout 2025. Thirteen insurer-related public equity offerings were completed during 2025, with an aggregate value of \$3.9 billion.¹⁴³ This level of activity marks a modest decrease in the number of deals from 2024, during which 16 deals also valued at \$3.9 billion were completed. Following one initial public offering in 2024, there were three more in 2025, valued at \$726 million. American International Group (AIG) followed its 2022 spin-off of its life insurance, retirement, and wealth management operations into Corebridge Financial, Inc. with approximately \$1.5 billion of further sales in 2025 of its remaining equity in Corebridge. Notably, the AIG sales of Corebridge equity represented about 40 percent of the aggregate equities transaction value in 2025. AIG's Corebridge transactions included approximately \$2.8 billion of equity sales captured in the S&P Global financing data in 2023 and an additional \$2.0 billion in 2024.

Debt markets continued to be the primary source of financing for insurers in 2025, albeit at a much lower aggregate value. U.S. insurers raised an aggregate \$48.9 billion in 117 separate debt offerings in 2025.¹⁴⁴ The aggregate value of debt issued by U.S. insurers decreased by 32.6 percent in 2025 from the \$72.5 billion raised in 130 offerings in 2024. The largest single debt offering was a \$1.5 billion issue sold by Cigna Group. The largest issuer of total debt at \$6.6 billion sold over the year was MetLife, Inc. and its subsidiaries. Cigna Group was the second-largest issuer of debt, raising \$4.5 billion. In the aggregate, the funds raised by the top five issuers of debt accounted for 39.4 percent of the 2025 industry total, down substantially from

¹⁴² Zawacki, *et al.*, "Run of Record Underwriting Profits Extends to Fifth Quarter for U.S. P&C Industry."

¹⁴³ All data in this section with respect to financings is sourced from S&P Global, as collected and calculated by FIO. The data include Bermuda-based holding companies for which primary insurance underwriting subsidiaries are domiciled in the United States.

¹⁴⁴ Foreign-currency-denominated transactions converted to U.S. dollars by S&P Global.

59.2 percent for the top five debt issuers in 2024. Overall, a comparable number of transactions occurred in 2025, but at generally much lower amounts compared to recent prior years.

2. Mergers & Acquisitions of U.S. Insurers

In 2025, there were 44 merger and acquisition (M&A) transactions announced involving U.S. insurance companies, with a total disclosed aggregate value of \$27.6 billion.¹⁴⁵ While 2025 M&A involved only one more deal than 2024, the total aggregated disclosed deal value was nearly \$10 billion, or 55.1 percent, higher. Among the 2025 M&A transactions, the L&H sector saw 18 deals with an aggregate disclosed value of \$16.6 billion, a 49.5 percent increase in the disclosed value of L&H deals in 2024. The 26 M&A transactions in the P&C sector in 2025 amounted to a 64.2 percent increase in aggregate disclosed value over the previous year to \$11.0 billion. More selective, strategic acquisitions contributed to the rise in aggregate disclosed deal values in both sectors.¹⁴⁶ The number of deals in the L&H sector increased by 63.6 percent, while the number of deals in the P&C sector decreased by 18.8 percent. The largest transaction in 2025 was Aquarian Capital's \$4.1 billion acquisition of Brighthouse Financial, which accounted for 14.9 percent of the total industry aggregate disclosed deal value.

3. Alternative Risk Transfer Insurance Products

Alternative risk transfer markets increase the U.S. insurance industry's ability to supply insurance by using the capital and derivatives markets to attract investors from outside the industry, allowing insurers to transfer risk away from themselves to other parties. The primary areas of alternative risk transfer include: (1) risk securitization through insurance-linked securities (ILS), such as catastrophe bonds (cat bonds), collateralized reinsurance (reinsurance that is fully collateralized by investors of third-party capital), or reinsurance sidecars, which allow investors to take on the risks and benefits from specific books of insurance or reinsurance business; (2) risk trading mechanisms such as industry loss warranties, which allow an entity to gain coverage based on the total insured loss experienced by the entity's industry rather than the entity's own losses from a specified event; and (3) instruments used to transform capital market risks into reinsurance, such as transformer vehicles—entities that bridge the capital and reinsurance markets and can convert derivative contracts into insurable interest.¹⁴⁷

Alternative risk transfer mechanisms, which have become increasingly attractive to investors as well as insurers looking to transfer risk, remained in high demand in 2025. The estimated capacity level for the ILS market segment was \$120 billion at the end of 2025, attributed to

¹⁴⁵ All data in this section with respect to M&A transactions is from Barry Chen, *et al.*, 2026 *Insurance M&A Outlook* (2025), <https://www.deloitte.com/us/en/what-we-do/capabilities/mergers-acquisitions-restructuring/articles/m-a-trends-report>. Transactions for 2025 were announced between January 1, 2025 and December 31, 2025, and were either completed during the year or remained pending at the end of 2025. Transactions include acquisitions of whole companies, assets, or minority interests in instances where a U.S.-domiciled insurer was either the buyer or seller.

¹⁴⁶ Chen, 2026 *Insurance M&A Outlook*.

¹⁴⁷ See FIO, 2025 *Annual Report*, 70 (citing sources).

strong retained earnings, new capital inflows, mark-to-market gains on bonds taken directly to equity, and exchange rate movements.¹⁴⁸

Cat bond issuance increased by about 45 percent from 2024 to reach a new annual high of \$25.6 billion, while the outstanding cat bond market reached a new high of \$61.3 billion—an almost 24 percent increase from 2024.¹⁴⁹ Bonds covering natural catastrophe risk continued to make up the largest segment of the cat bond market, with cyber catastrophe bonds trailing far behind.¹⁵⁰ However, 2025 saw growing demand for cyber catastrophe bonds. In the fourth quarter alone, \$450 million of new cyber catastrophe bonds came to market, representing the biggest cyber catastrophe bond quarter ever. Despite growing relevance and demand, the market for cyber cat bonds remained relatively subdued, with capacity in the cyber space growing to \$1.24 billion at year-end 2025.¹⁵¹ Cyber cat bond issuance is anticipated to remain modest until the underlying cyber insurance market matures and further expands.¹⁵² Still, as demand for cyber insurance coverage increases, there may be an appetite for finding innovative solutions to allow for greater transfer of peak cyber insurance risks to capital markets.¹⁵³

Industry loss warranty capacity decreased, estimated at between \$4 and \$6 billion, and collateralized reinsurance capacity was estimated to range from \$36 billion to \$40 billion.¹⁵⁴

Reinsurance Sidecars

Reinsurance sidecars—which are separate legal entities that insurers or reinsurers create in order to share risks with investors in exchange for a percentage of the insurer’s premiums—are similar to vehicles that issue cat bonds, with a notable difference being that sidecars issue both equity

¹⁴⁸ Steve Evans, “Alternative / ILS Reinsurance Capital Grew 18% to \$136bn in 2025: Aon,” *Artemis*, April 1, 2026, <https://www.artemis.bm/news/alternative-ils-reinsurance-capital-grew-18-to-136bn-in-2025-aon/>; A.M. Best, *Best’s Special Report: Cat Bond Market Growth Accelerates as Loss Multiples Compress* (2026), https://news.ambest.com/research/displaybinary.aspx?URatingID=2496247&TY=P&record_code=363082.

¹⁴⁹ Artemis, *Q4 2025 Catastrophe Bond & ILS Market Report* (2025), 18, <https://www.artemis.bm/wp-content/uploads/2026/01/catastrophe-bond-ils-market-report-q4-2025.pdf>; “Catastrophe Bonds & ILS Issued and Outstanding by Year,” Artemis, <https://www.artemis.bm/dashboard/catastrophe-bonds-ils-issued-and-outstanding-by-year/>.

¹⁵⁰ R&I Editorial Team, “Catastrophe Bond Market Shatters Records in 2025,” *Risk & Insurance*, January 12, 2026, <https://riskandinsurance.com/catastrophe-bond-market-shatters-records-in-2025/>.

¹⁵¹ Jack Willard, “Novelty Premium in Cyber Cat Bonds Has Reduced, But Not Completely ‘Gone Away’: AM Best,” *Artemis*, April 17, 2026, <https://www.artemis.bm/news/novelty-premium-in-cyber-cat-bonds-has-reduced-but-not-completely-gone-away-am-best/>; “Cyber Insurance Market Outlook 2026: Resilient Earnings, Tougher Competition, Pockets Of Growth,” *S&P Global*, December 9, 2025, <https://www.spglobal.com/ratings/en/regulatory/article/cyber-insurance-market-outlook-2026-resilient-earnings-tougher-competition-pockets-of-growth-s101658506>.

¹⁵² Willard, “Novelty Premium in Cyber Cat Bonds Has Reduced.”

¹⁵³ See The Geneva Association, *Catalysing Cyber Risk Transfer to Capital Markets: Catastrophe Bonds and Beyond* (2024), 7, https://www.genevaassociation.org/sites/default/files/2024-12/cyber_ils_report_1213.pdf; Aon, *ILS Annual Report* (2024), 11, <https://www.aon.com/getmedia/154b74d4-b861-45a5-a14c-bc258c88d19f/20240830-ils-annual-report-2024.pdf>.

¹⁵⁴ A.M. Best, *Best’s Special Report: Cat Bond Market Growth Accelerates as Loss Multiples Compress*.

and debt. Sidecar vehicles are usually fully collateralized, intended to ensure that dedicated funds are available to pay claims if losses occur.¹⁵⁵

Sidecars have become more common in the U.S. life and annuity insurance space in recent years as a tool for insurers to access third-party capital and de-risk balance sheets. Sidecars can be used for in-force block reinsurance, flow reinsurance for new business, and pension risk transfer, among other strategic uses. Sidecars may also allow third parties to provide other benefits, such as asset management services.¹⁵⁶ Total U.S. life insurance/annuity reserves ceded to sidecars (or to entities engaged in sidecar-like activities) increased to \$90.7 billion in 2025, up from \$63.9 billion in 2024.¹⁵⁷

Estimated P&C reinsurance sidecar capacity was \$16 to \$18 billion in 2025.¹⁵⁸ This represented near double digit growth over the estimated \$8 to \$10 billion in sidecar capacity in 2024 and \$5 to \$7 billion in 2023.¹⁵⁹ Observers noted most of the growth came from property catastrophe coverage, with cedents valuing sidecars for risk-sharing and as part of their capital management and optimization strategies.¹⁶⁰ Casualty sidecars also increased.¹⁶¹

Parametric Insurance

Parametric insurance is a smaller, but growing, risk transfer mechanism that insures a policyholder against the occurrence of a specific event by paying a set amount based on the qualities of the event itself, as opposed to paying based on the losses stemming from the event.¹⁶² By one estimate, the global parametric market was \$16.2 billion in 2024 (i.e., about 0.6 percent of total insurance market premiums), with growth over the next ten years projected to reach as much as \$51.3 billion.¹⁶³ Projected growth for parametric insurance is attributed to several factors, including among other things (1) the adoption of new advanced technologies that allow for enhanced precision and efficiency of parametric products; (2) a growing need for risk

¹⁵⁵ “What Is a Reinsurance Sidecar?,” Artemis, <https://www.artemis.bm/library/what-is-a-reinsurance-sidecar/>.

¹⁵⁶ See FIO, 2025 Annual Report, 70 (citing sources).

¹⁵⁷ A.M. Best, *Best’s Special Report: Big Year of Growth for Life/Annuity Sidecar-Like Activity in 2025* (2026), https://news.ambest.com/research/DisplayBinary.aspx?TY=P&record_code=366145.

¹⁵⁸ A.M. Best, *Best’s Special Report: Cat Bond Market Growth Accelerates as Loss Multiples Compress*.

¹⁵⁹ See FIO, 2025 Annual Report, 71 (citing sources); A.M. Best, *Best’s Special Report: Cat Bond Market Growth Accelerates as Loss Multiples Compress*, 7.

¹⁶⁰ See A.M. Best, *Best’s Special Report: Cat Bond Market Growth Accelerates as Loss Multiples Compress*, 7.

¹⁶¹ See A.M. Best, *Best’s Special Report: Cat Bond Market Growth Accelerates as Loss Multiples Compress*, 8.

¹⁶² “What is Parametric Insurance?,” Insurance Business, last updated May 9, 2024, <https://www.insurancebusinessmag.com/us/news/breaking-news/what-is-parametric-insurance-114901.aspx>.

¹⁶³ Anthony Cappelletti, “The Growth of Parametric Insurance,” *Society of Actuaries*, January 6, 2026, <https://www.soa.org/communities/general-insurance/newsletter-articles/2026/january/2026-01-gi-cappelletti2/>.

management; (3) an increase in consumer awareness of parametric products; and (4) a favorable regulatory environment.¹⁶⁴

As parametric policies gain further traction, the federal government has joined states in considering their adoption within existing frameworks.¹⁶⁵ Specifically, the President’s Council to Assess the Federal Emergency Management Agency recommended using parametric policies to reform the agency’s Public Assistance Program. Under the proposed program, the federal government would release funds to states within 30 days of a major federal disaster declaration, using a parametric trigger, thus allowing for more rapid response and recovery.¹⁶⁶

C. International Insurance Marketplace Overview and Outlook

At year-end 2025, the United States remained the world’s largest single-country insurance market, with a 44.4 percent market share of global direct premiums written (see Figure 41).¹⁶⁷ U.S. market share decreased by approximately 50 basis points compared to that of 2024, returning to the level reported in 2023. When viewed as a single market, the EU’s combined share of 2025 global direct premiums written (approximately 17.5 percent, or \$1.5 trillion) is the next largest market. The EU’s market share increased by approximately 60 basis points for 2025. China remained the second-largest single-country insurance market, with 10.0 percent of global direct premiums written for 2025. China’s market share has remained at this level for the past three years. Collectively, the 20 largest single-country insurance markets in the world accounted for 90.0 percent of global direct premiums written in 2025, a level that has been slightly declining for the last three years. Globally, direct premiums written in 2025 increased by 7.4 percent in nominal terms, and 3.9 percent in real terms (adjusted for inflation). Global life insurance premiums rose 7.4 percent in 2025, while global non-life premiums increased by 7.3 percent.¹⁶⁸ For the same period, global gross domestic product expanded by an estimated 3.4 percent in nominal terms and 2.5 percent in real terms.¹⁶⁹

¹⁶⁴ “Parametric Insurance Market Set for Significant Growth,” *Captive.com*, August 2, 2024, <https://www.captive.com/news/parametric-insurance-market-set-for-significant-growth-projections-to-2032>.

¹⁶⁵ FIO, *2025 Annual Report*, 72 (section describes recent state legislation and initiatives involving parametric insurance products).

¹⁶⁶ FEMA Council, *Final Report*, 10-11.

¹⁶⁷ Jerome Jean Haegeli, et al., *World Insurance: Sigma 2/2026: Shock Absorbers in a Fragmenting World* (2026), <https://www.swissre.com/institute/research/sigma-research/sigma-2026-07-world-insurance.html> (*Sigma 2/2026*). Swiss Re sigma examines insurance and macroeconomic data from 147 countries sourced through Swiss Re Institute. Swiss Re sigma separates the insurance industry into “life” and “non-life” sectors according to standard EU and OECD conventions; under these conventions, the “non-life” sector includes health insurance. All figures shown use amounts converted to U.S. dollars; as such, year-over-year changes may reflect exchange rate movements as well as changes in locally denominated premium volume.

¹⁶⁸ See Haegeli, et al., *Sigma 2/2026*, 44, 46.

¹⁶⁹ IMF, *World Economic Outlook: Global Economy in the Shadow of War* (2026), 21, 44, <https://www.imf.org/-/media/files/publications/weo/2026/april/english/text.pdf>.

Figure 41: World Market Share of Direct Premiums Written 2023-2025 for Top Twenty Markets

2025 Rank	Country	2023 Premium Volume (\$ millions)	2023 World Market Share (%)	2024 Premium Volume (\$ millions)	2024 World Market Share (%)	2025 Premium Volume (\$ millions)	2025 World Market Share (%)	2025/2024 Premium Volume Change (%)
1	United States	\$3,233,489	44.4%	\$3,541,912	44.9%	\$3,763,571	44.4%	6.3%
2	China	723,660	9.9%	791,616	10.0%	851,358	10.0%	7.5%
3	United Kingdom	453,889	6.2%	471,688	6.0%	491,205	5.8%	4.1%
4	France	263,967	3.6%	343,061	4.3%	383,917	4.5%	11.9%
5	Japan	362,719	5.0%	310,274	3.9%	327,150	3.9%	5.4%
6	Germany	253,823	3.5%	267,608	3.4%	296,235	3.5%	10.7%
7	Italy	156,891	2.2%	182,217	2.3%	205,337	2.4%	12.7%
8	Canada	172,471	2.4%	181,709	2.3%	191,485	2.3%	5.4%
9	South Korea	177,041	2.4%	175,690	2.2%	185,820	2.2%	5.8%
10	India	135,706	1.9%	143,107	1.8%	151,363	1.8%	5.8%
11	Netherlands	92,361	1.3%	100,320	1.3%	112,338	1.3%	12.0%
12	Hong Kong	66,937	0.9%	75,567	1.0%	99,216	1.2%	31.3%
13	Taiwan	78,077	1.1%	84,442	1.1%	93,350	1.1%	10.5%
14	Spain	82,574	1.1%	81,335	1.0%	88,574	1.0%	8.9%
15	Brazil	85,722	1.2%	86,232	1.1%	80,677	1.0%	(6.4%)
16	Australia	75,018	1.0%	75,217	1.0%	77,128	0.9%	2.5%
17	Switzerland	61,100	0.8%	63,067	0.8%	67,634	0.8%	7.2%
18	Sweden	44,201	0.6%	51,833	0.7%	57,855	0.7%	11.6%
19	Mexico	44,679	0.6%	51,008	0.6%	53,863	0.6%	5.6%
20	Belgium	47,322	0.6%	48,822	0.6%	53,534	0.6%	9.7%
World		\$7,275,611		\$7,895,979		\$8,479,443		7.4%

Source: Swiss Re sigma, *World Insurance*

Note: Historical premium volumes and market shares may differ from those presented in prior FIO annual reports as Swiss Re Sigma revises historical data as additional information becomes available and methodologies are updated.

Global life insurance premiums, in real terms, grew by 4.0 percent, mainly due to a much slower 6.6 percent increase for this business in emerging markets as well as slightly slower 3.1 percent growth in advanced economies.¹⁷⁰ Easing demand for annuities in North America and weaker savings products demand in the UK were somewhat offset by continued strong demand for savings products and product innovation in advanced Asia-Pacific economies.¹⁷¹ Emerging markets' life insurance and annuity sales benefited from strong demand for savings products in China, which was somewhat offset by weakness in Latin American emerging economies.¹⁷² For

¹⁷⁰ Haegeli, *et al.*, *Sigma* 2/2026, 36.

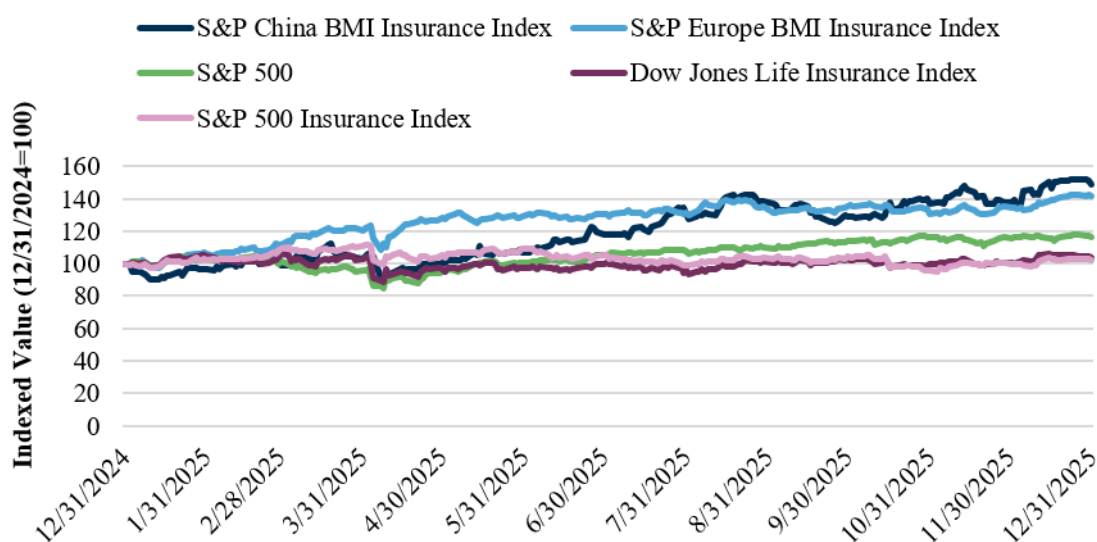
¹⁷¹ Haegeli, *et al.*, *Sigma* 2/2026, 36.

¹⁷² Haegeli, *et al.*, *Sigma* 2/2026, 36.

the non-life sector, global premium growth of 3.9 percent in real terms reflected slowing growth in both emerging markets (up 3.6 percent in real terms) and advanced markets (up 3.9 percent in real terms).¹⁷³ Globally, 2025 was a year of slowing growth, following the record-high 2024 growth in the non-life sector that was largely due to rate increases. North American and European markets were solid contributors to advanced economies' non-life premiums growth, notably in personal lines, while growth in Asia slowed more dramatically.¹⁷⁴ In emerging economies, continued weakness in China restrained overall growth, but a rebound in India lessened this impact.¹⁷⁵

Insurance stock indices across selected major insurance markets recorded positive results in 2025, with mixed price performance relative to broader benchmarks (such as the S&P 500). Among the indices monitored by FIO (see Figure 42), the S&P 500 [U.S.] Insurance Index was the worst performing, increasing by 2.3 percent in 2025 (compared to a 16.4 percent increase for the broader S&P 500). Chinese insurer equities, as measured by the S&P China BMI Insurance Index, followed the strong 2024 price gain of approximately 37 percent with a 49.2 percent increase in 2025. European insurance equities also had a strong year as the S&P Europe BMI Insurance Index rose 42.0 percent. Domestically, the Dow Jones [U.S.] Life Insurance Index underperformed the broad market, rising 3.5 percent for the year.

Figure 42: Performance of Global Insurance Indices as Compared to Broad-Market Benchmark (S&P 500)



Source: S&P Global

Looking ahead, observers expect that total world premiums written (in real terms) are likely to increase by a slower 1.3 percent in 2026, a projection that is down from 3.9 percent growth in

¹⁷³ Haegeli, *et al.*, *Sigma* 2/2026, 35.

¹⁷⁴ Haegeli, *et al.*, *Sigma* 2/2026, 35.

¹⁷⁵ Haegeli, *et al.*, *Sigma* 2/2026, 35.

2025.¹⁷⁶ Observers further note that profits of non-life insurers in 2026 may be pressured by softening in personal lines, as prior years' premium rate increases restored profitability, but this may be contained by structural pressures from increasing loss severities, natural catastrophe exposures, and reserving for long-tail liabilities. Still, strong investment earnings will likely aid profitability.¹⁷⁷ With respect to the L&H sector, the rate of life premiums growth may slow in 2026 as demand for savings products decreases because of the extended period of higher interest rates. However, continued solid investment income could stabilize profitability against underwriting margin pressures.¹⁷⁸

¹⁷⁶ Haegeli, *et al.*, *Sigma* 2/2026, 16.

¹⁷⁷ See Haegeli, *et al.*, *Sigma* 2/2026, 18.

¹⁷⁸ Haegeli, *et al.*, *Sigma* 2/2026, 16.

III. CONCLUSION

The insurance industry benefited from overall economic growth and interest rates in 2025. Growth in premiums and net investment income moderated across the L&H and P&C sectors. L&H operating income increased, largely because of flat surrender activity and a significant increase in the reinsurance allowance. The P&C sector recorded a solid gain in pre-tax operating income, but lower pre-tax income (after capital gains) and net income. Despite top-line growth and a strong underwriting gain, the P&C sector's flat net investment income and a significant decrease in realized capital gains restrained results. Going forward, FIO will continue to monitor the insurance industry, including the ongoing transformation in the L&H sector, including AIR and life insurer investment profiles; developments in technological innovations (such as AI and AV) and their implications for the insurance industry; the affordability and availability of insurance; and macroeconomic and market trends affecting the U.S. insurance industry and consumers.