Reinsurance: Opportunities and considerations

Insights

We see opportunities for certain qualified investors in reinsurance due to total return and portfolio diversification benefits. In this paper, we outline characteristics, features and risks in the category.

Catastrophes such as hurricanes, earthquakes, wind damage and wildfires cause significant human tragedy and loss of life. In 1992, Hurricane Andrew inflicted tremendous damage and loss of life, killing 65 people and leaving more than 250,000 people temporarily homeless. It also inflicted tremendous damage on the insurance industry, causing the failure of seven insurance companies and pushing others close to insolvency[1]. The severity of losses forced insurers to cancel existing policies and request large rate increases.

In the aftermath of Hurricane Andrew, insurance companies created the catastrophe (cat) bond. In a cat bond, insurance companies receive payments from investors when a predefined catastrophe occurs, such as a hurricane. The introduction of cat bonds enabled insurers to transfer catastrophe risk to a broader range of investors, helping them diversify more efficiently and reduce their reliance on policy cancellations and rate hikes in exchange for allowing investors to participate in the economics of insurance.

Investors refer to cat bonds and other financial instruments related to catastrophe events as insurance-linked securities (ILS). ILS delivers distinct return dynamics to investors, helping them diversify portfolios beyond traditional stocks and bonds while still often providing compelling returns, an uncommon combination which warrants investor attention. The following sections go into further detail on reinsurance economics, benefits, risks and the current reinsurance market.

Reinsurance economics

Insurance companies manage risk by shifting payment risks from potential claims to the reinsurer. Reinsurers typically pay claims when losses from a covered event surpass a predefined threshold. For example, an insurance company may enter into an agreement with a reinsurer that covers losses from a hurricane greater than $500 million. In this example, the insurance company pays losses up to $500 million, and the reinsurer pays losses above $500 million.

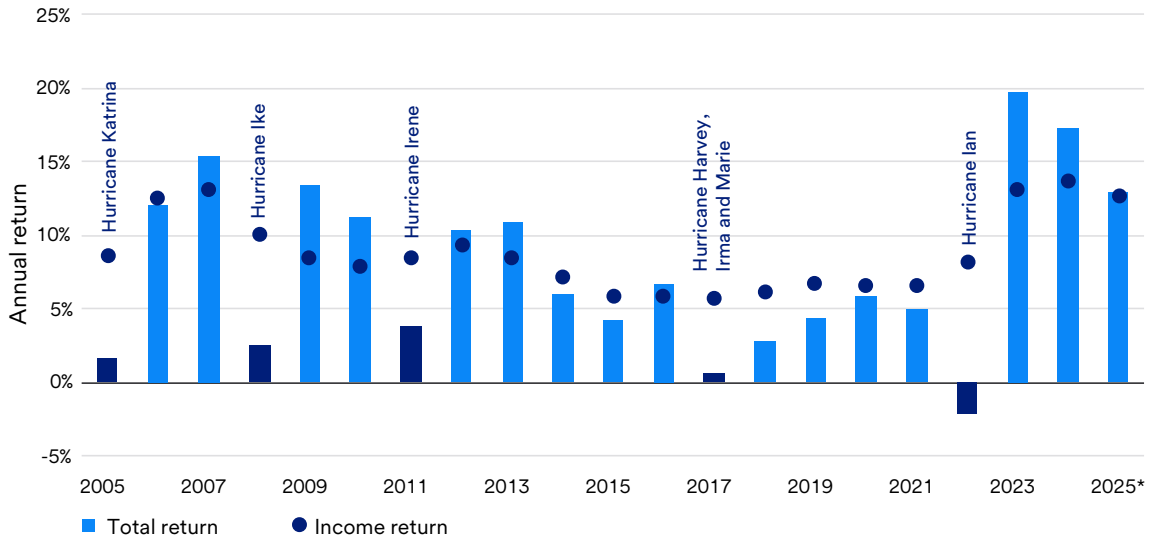
Reinsurance economics mirror those of the insurance industry. ILS investors receive steady income, much like the premiums policyholders pay to insurance companies, but also experience losses if payouts surpass a predefined point, much like a traditional insurance company covering losses that exceed a claim's deductible. ILS investors typically experience losses via a decline in the bond's principal value.

Conceptually, this relationship between high current income and periodic losses parallels investing in corporate bonds. Corporate bond investors receive steady coupon income and occasionally experience a credit loss if the bond issuer is unable or unwilling to pay. Investors must determine whether the measurable, steady income will offset periodic credit losses of varying magnitude.

[1] https://www.insurancebusinessmag.com/us/news/catastrophe/hurricane-andrew–30-years-on-from-devastating-storm-418026.aspx

Figure 1 provides a visual representation of annual historical catastrophe bond index returns, with dots representing income returns and bars showing total return. Total return figures represent the sum of income and bond price changes, the latter of which includes insured losses resulting from catastrophic events. We can observe lower total returns during periods of severe insured loss events. Income returns provide a buffer against the potential for losses stemming from event risk. Historically, the high coupon payments have more than offset the occasional loss.

Figure 1. Reinsurance income return and total return by year, noting years with significant insured losses

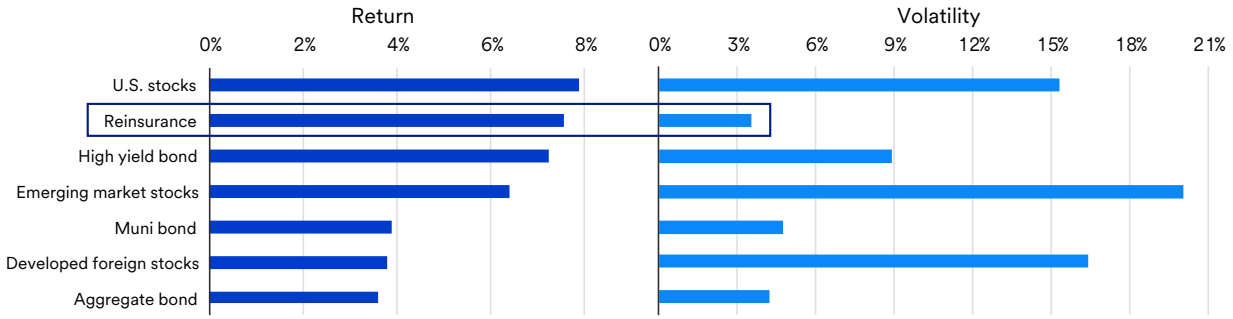


*2025 indicates income and total return year-to-date through 10/31/2025.
Sources: U.S. Bank Asset Management Group, Bloomberg; 12/31/2004-10/31/2025.

Compelling historical returns

Compelling historical reinsurance returns can mask variability due to periodic natural disasters that trigger high damage claims. Investors received annualized returns of more than 7% since data became available in 2002[2], comparable to high yield bond and U.S. equity returns over the same period. Importantly, reinsurance returns showed low annualized volatility over the same period compared to other high-returning assets. Income distributions drive the majority of positive reinsurance investment returns, which some investors prefer over price appreciation.

Figure 2. Annualized return and volatility since 2001



Sources: U.S. Bank Asset Management Group, Bloomberg; 12/31/2001-10/31/2025.

[2] Swiss Re Global Cat Bond Total Return Index

Unique diversification

Reinsurance's unique diversification properties are among the primary benefits to investor portfolios, driven by its differentiated return sources. Assets whose prices move differently than traditional investments can enhance long-term portfolio returns relative to the risk investors incur. Stocks and bonds can be highly sensitive to the economic cycle and shifting investor sentiment. Over the long run, stocks and bonds often move differently to one another, but occasionally economic factors cause prices to move in similar fashion, reducing their diversification benefits in a portfolio. In contrast, reinsurance price sensitivity relies primarily on catastrophic events that can trigger claims.

Although factors like interest rates and capital available to the insurance market influence performance, reinsurance returns historically indicate a low correlation with other financial assets. Correlations represent the extent to which returns move in the same (1.0) or opposite direction (-1.0) relative to other assets over time. Figure 4 displays reinsurance correlations versus a diversified portfolio of 60% stocks and 40% bonds, suggesting low reinsurance correlations versus traditional portfolios.

Figure 4. Asset correlations with a 60% stock/ 40% bond portfolio

Asset category	Correlation
Reinsurance	0.26
Muni bond	0.31
Aggregate bond	0.32
Emerging market stocks	0.75
High yield bond	0.75
Developing foreign stocks	0.87
U.S. stocks	0.98

Sources: U.S. Bank Asset Management Group, Bloomberg; 12/31/2001-10/31/2025. See disclaimers for index definitions.

Security selection within investment vehicles further enhances diversification. Most reinsurance vehicles embed diversification across various peril types and geographic regions, which partially mitigates the risk that a single event could cause disproportionate investor losses, although investors cannot fully eliminate this risk. Figure 5 displays the percentage of catastrophe bonds or ILS in financial markets covering prominent risks or perils. A peril is an event such as fire, wind or flooding that causes damage. This highlights the importance of utilizing diversified funds rather than individual securities when investing in reinsurance.

Figure 5. Catastrophe bonds & ILS risk capital outstanding by risk or peril

Risk/peril	Percent outstanding
U.S. multi-peril	20.9%
U.S. named storm and hurricane	17.2%
International multi-peril	16.1%
U.S. earthquake	9.8%
Florida named storm	9.1%
Texas multi-peril	4.7%
Japan earthquake	2.5%
European windstorm	1.5%
Healthcare	1.5%
U.S. flood	1.5%
Cyber risk	1.4%
Financial guarantee risk	1.2%
Other	12.6%

Sources: U.S. Bank Asset Management Group, Artemis.bm deal directory.

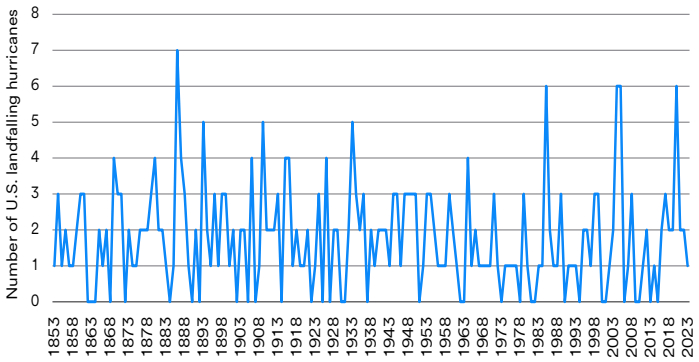
Reinsurance risks

Catastrophes pose risks to reinsurance investors in addition to devastation to communities and people impacted. Reinsurance investments periodically experience large losses from natural disasters with high damage rates. Historically, steady income returns have more than offset these periodic large losses over time, but investor experience may differ in the future. Returns will depend on when investors purchase and sell, how insurance premium pricing changes and natural disaster timing, magnitude and location.

Investors commonly ask whether climate change will worsen natural disasters and increase their financial toll. According to the National Oceanic Atmospheric Administration (NOAA), researchers have found that landfalling hurricanes have not significantly increased since data became available in 1851[3]. However, rising population density, higher property values and the growth of insurance in impacted areas create the potential for larger insured losses.

[3] **National Oceanic and Atmospheric Administration.** "Continental United States Hurricanes Impacts/Landfalls 1854-2023." *Atlantic Oceanographic and Meteorological Laboratory*

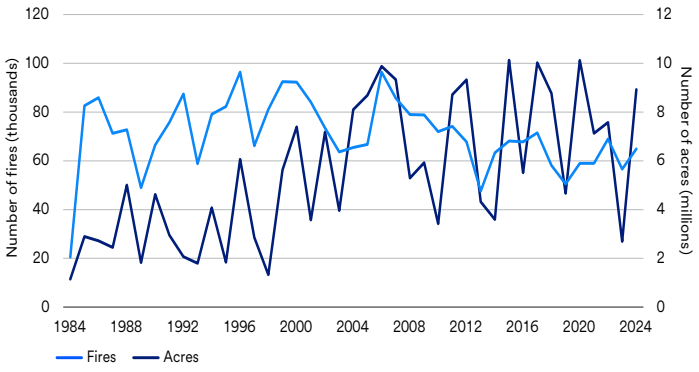
Figure 6. Number of U.S. landfalling hurricanes since 1853



Source: U.S. Bank Asset Management Group, National Oceanic and Atmospheric Administration (NOAA); 1851-2023.

Available data on wildfires remains limited. According to the National Interagency Fire Center, data since 1983 indicates that while wildfires have decreased in number, the acreage burned increased in recent years. This indicates a lower number but higher impact of wildfires[4].

Figure 7. Number of U.S. wildfires and acres impacted since 1984



Sources: U.S. Bank Asset Management Group, National Interagency Fire Center; 1984-2024.

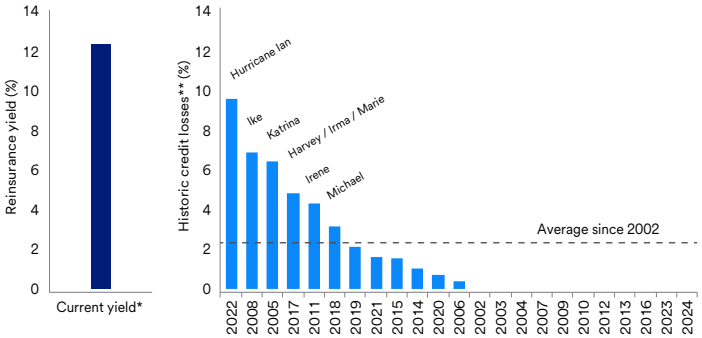
As with any investment, investors must weigh the return opportunity relative to the risk of loss. Insurance companies can increase insurance premium prices to account for their changing loss expectations. They derive expectations using data on where natural disasters could occur and how much damage they could cause. Insurance and reinsurance companies have a strong incentive to charge premiums that accurately and conservatively consider future losses to ensure long-run profitability. Additionally, insurance companies often increase premiums after incurring large losses to help rebuild capital, retain strong credit ratings, and bolster their ability to meet future claims. If climate disasters cause more insured losses, insurers could respond by raising premiums more often and by larger amounts. If regulation inhibits insurers from charging higher premiums to properly reflect risk, insurers may choose to drop coverage in higher risk geographies.

Over the past 25 years, publicly traded U.S. insurance companies exhibited robust profitability, with median annual earnings growth of 12% compared to 7% for the S&P 500. Strong profitability over time suggests insurance and reinsurance companies retain their ability to appropriately price evolving risks. Insurance companies and reinsurance investors align their incentives as both parties need premiums to adequately compensate for insured losses and provide a sufficient total return on their invested capital.

Current market

As of October 2025, recent reinsurance income far exceeds average historical losses. This creates a meaningful buffer if losses from natural disasters exceed historical norms. For a long-term investor, the combination of portfolio diversification, significant current income, and the cushion that income creates against losses contributes to opportunities in the reinsurance category.

Figure 8. Current reinsurance income yield versus historical losses by year and event



Sources: U.S. Bank Asset Management Group Research, Bloomberg; February 28, 2002-October 31, 2025.

*Last 3-month income return, annualized.

**Annual credit losses proxied as years with negative price returns on the Swiss Re Global Cat Bond Index, or no credit losses in years with positive price returns.

[4] **National Interagency Fire Center**. "Wildfires and Acres." *National Interagency Fire Center*

An additional consideration includes global growth in insured assets. Developed economies have a disproportionate share of insured assets. If recent trends remain consistent, emerging economies should continue insuring a greater share of assets. This presents opportunities for investors to further diversify amongst global perils and provide capital to a steadily growing industry to meet increasing insurance demand across the globe.

How to invest in reinsurance

In recent decades, insurance and reinsurance companies tapped capital markets to facilitate growth in their underwriting businesses and meet customer demand. Over the past few years, new reinsurance funds have increased access to the category. Hedge funds represented investors' initial access point. More recently, investors began to access interval funds, and now daily liquid mutual funds are available. Hedge funds offer the lowest degree of investor liquidity, with longer time frames to deploy capital and to exit the investment. Interval funds, which do not trade on public exchanges, provide more liquidity to investors, with more frequent opportunities to invest and redeem capital. Mutual funds offer the most liquid access, creating opportunities for investors to participate in the category daily. We encourage a discussion with your financial advisor to identify the most appropriate access point to the category which considers your unique situation.

Conclusion

We see compelling opportunities for qualified investors in reinsurance, and new, more liquid vehicles increase choices. Low correlations with traditional assets present a case for inclusion of reinsurance in diversified portfolios. The industry's ability to re-price contracts allows for adjusting to evolving risks and bolsters industry profitability, which aligns with investor incentives. Current fundamentals, including high current income and the cushion it provides against typical insured losses related to catastrophes, add to the investment case. We view reinsurance as an important part of diversified portfolios for qualifying investors, albeit with the potential for periodic volatility and losses.