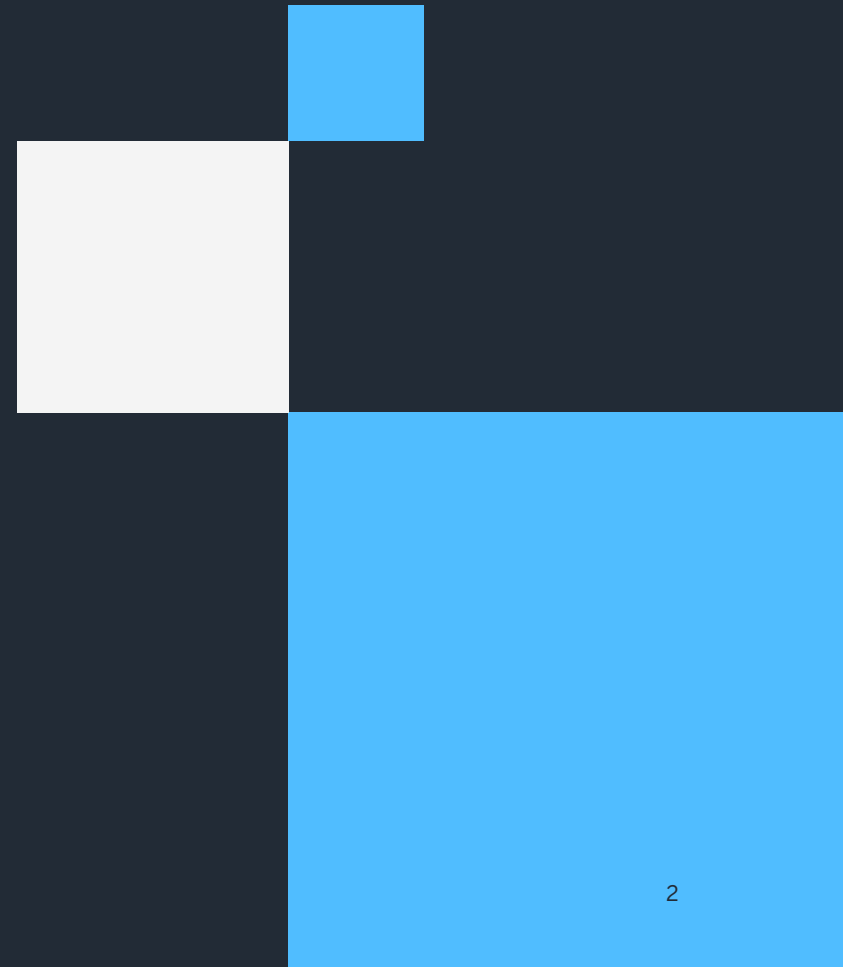


# 2026 Risk and capital hot topics

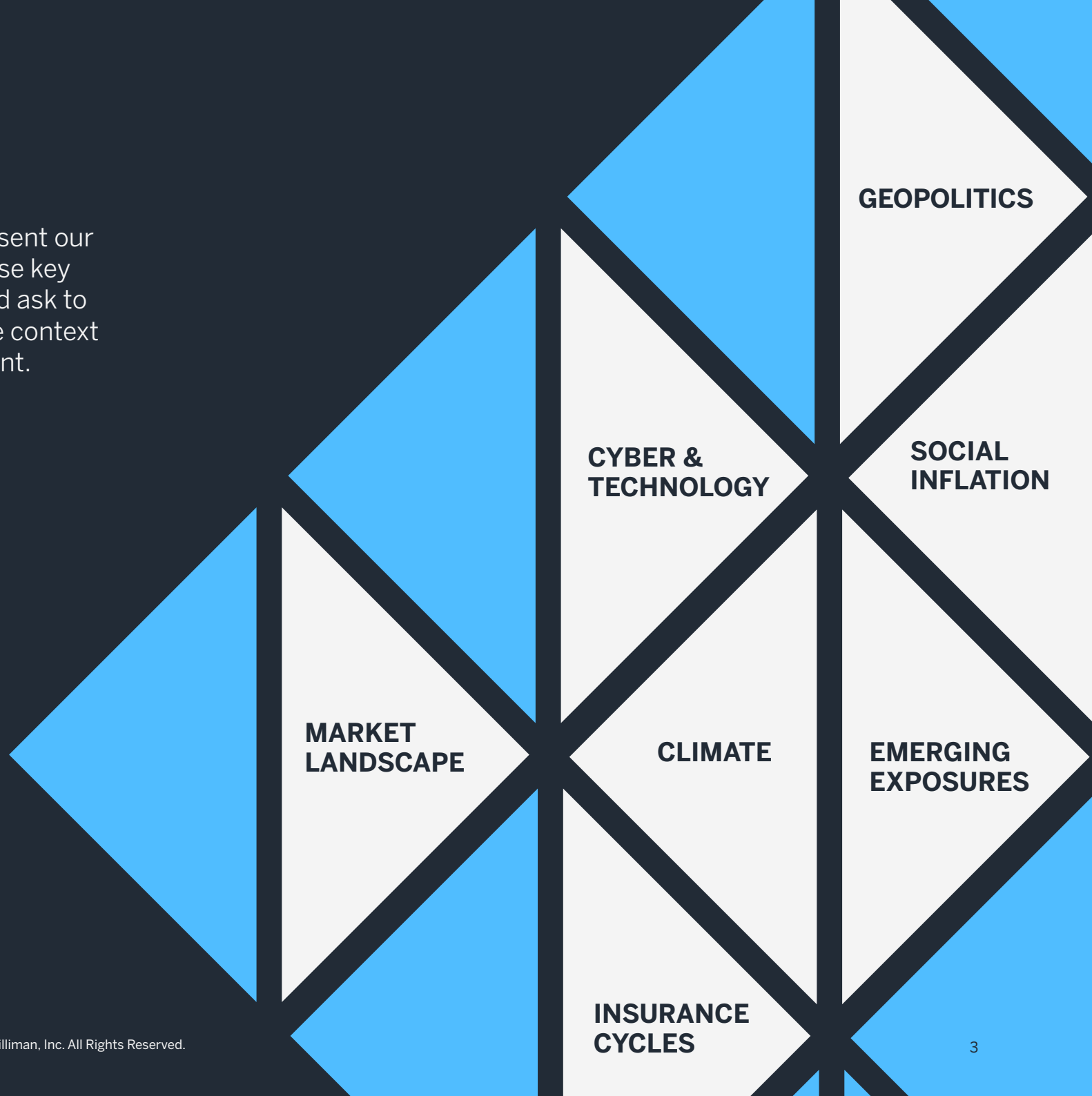
# Adapting to a world at risk

Cyber risk and new technologies. Geopolitical turmoil and climate change. Social inflation and insurance cycles. As the world faces emerging and increasingly uncertain risks, general insurers must respond.

Milliman specialises in providing our clients with a variety of risk and capital solutions. These include risk management, capital modelling, internal model validation, the evaluation of strategic transactions and business planning support.



In the following pages, we present our main observations and propose key questions that insurers should ask to inform decision-making in the context of risk and capital management.



# Cyber & technology

## MATURING MARKET

Although cyber risks have not abated, the cyber insurance market is softening, with rates falling by an average of 11% in 2025.<sup>1</sup> Meanwhile, loss development patterns are slowing, representing more drawn-out losses potentially driven by increasingly complex attacks, such as double extortion, and second-order risks, such as litigation and regulatory fines.<sup>2</sup>

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**How do you see the drivers of cyber losses shifting in the future?**

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## CATASTROPHE MODELLING

The rapid growth of cyber insurance-linked securities (ILS) continued in 2025, reaching \$1 billion in outstanding issuance by the end of the year.<sup>3</sup> Estimated impacts of large attacks can vary significantly between different catastrophe models, demonstrating uncertainty that creates a barrier, both to increased ILS adoption and accurate capital modelling.<sup>4</sup> Uncertainty around large losses can substantially impact loss ratios.

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**How are you dealing with increased uncertainty around cyber cat events and the outputs from vendor models?**

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## DATA CENTRES

The rapid adoption of artificial intelligence (AI) has caused annual US data centre spending to rise from \$1.8 billion in 2014 to \$45 billion in mid-2025.<sup>5</sup> In a recent Milliman survey, 57% of participants listed AI as one of their top risks in 2026.<sup>6</sup> With the vast scale of centre construction and the potential for extreme losses, extensive risk engineering and strict underwriting are required. Unlike traditional property policies, the costs from business interruption often exceed physical damage, leaving many insurers hesitant to provide large limits.<sup>7</sup> There are also emerging risks pertaining to data centre policies, including concerns about rights-of-light, construction-stoppage lawsuits and other local actions.<sup>8</sup>

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**How are you modelling exposures to data centre policies?**

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## AI-RELATED RISKS

Whilst generative AI can enable enhanced cyber defence, it is also leveraged by bad actors for more efficacious cyberattacks, such as more convincing phishing attempts that use deep fake videos and voice manipulation.<sup>9</sup> These technologies can increase the number and sophistication of potential attacks and may lead to increased claim frequency and/or severity.

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**Have you observed any impact of AI-related attacks on your cyber claims?**

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# Geopolitics

A recent Milliman survey found that 81% of respondents ranked geopolitical risk as one of their top risks.<sup>10</sup>

## FROM SCENARIO ANALYSIS TO ACCUMULATIONS

Historically, capital models have assumed low-to-moderate cross-class correlation for geopolitically exposed lines. The Iran-Israel escalation has put this under the spotlight, as war-risk premiums quadrupled, Strait of Hormuz cargo volumes fell abruptly, and aviation, marine, energy and political violence reserves moved simultaneously.<sup>11</sup> A China-Taiwan conflict would be materially worse, extending accumulation into technology supply chains, semiconductor-linked property and contingent business interruption lines on a scale for which no meaningful historical loss data exists.

Correlation matrices calibrated on peacetime loss activity may not capture the tail that geopolitical events can produce. Terrorism-only datasets and pre-Russia-Ukraine dependency structures have significant limitations as proxies for state-on-state conflict.<sup>12</sup>

State conflict can simultaneously drive marine hull claims, energy business interruption payouts, oil price spikes and financial market volatility. Companies should review their premium and market risk correlations and consider the appropriateness of the tail dependency across their portfolio.

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**How do you ensure that these interdependencies are captured appropriately in your model?**

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## CAPACITY AND OPPORTUNITY

Lloyd's expects greater volatility to drive demand for insurance, and the market exists to create opportunities for syndicates to write such risks. The US government has provided some war-risk mitigation, but political-risk and war-risk ILS are still relatively uncommon.

Data centre investment is also relevant here, as these facilities now underpin national economies, military capabilities and AI dominance. Insurers that can manage these emerging risks despite limited loss history will have a competitive advantage.

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**What opportunities do you think arise for insurers from the increased volatility?**

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## ASSUMPTION TESTING IN A FRAGMENTED WORLD ORDER

The inclusion of geopolitical exposures through proxies may now be out of date because these rely on pre-2022 sanction regimes, benign trade credit experience and political violence curves calibrated on terrorism rather than war.

Validation can play a valuable role in challenging the expert assumptions that underwriters embed in pricing, such as which marine cargo routes could become exclusion zones.

When the Middle East conflict intensified in 2025, Lloyd's war-risk syndicates kept the market open and honoured existing policies.<sup>13</sup> Good internal models are responsive to risk profile changes and mean that syndicates maintain an appropriate view of the risks involved.

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**How do you calibrate (and validate) your geopolitical exposures in an evolving landscape?**

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# Insurance cycles

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## PROFITABILITY IN FUTURE BUSINESS

In recent years, a key consideration in capital models has been understanding uncertainty around future underwriting performance. The Prudential Regulation Authority (PRA) has signalled concern that models embed optimistic loss ratio projections calibrated on the hard-market conditions seen since the COVID-19 pandemic.<sup>14</sup> As conditions soften, Lloyd's expects aggregate premiums to decline 1.5%, with casualty risk-adjusted rate changes already negative.<sup>15</sup>

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**Given softening conditions and increased regulatory scrutiny on profitability, what frameworks and validations do you have to ensure business plan assumptions remain appropriate and achievable?**

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## VALIDATION GOVERNANCE AND CYCLE SENSITIVITY

Soft-market conditions create both internal and regulatory pressure on validation. The amount of justification required for favourable loss ratio assumptions is rising as combined ratios deteriorate, which is especially challenging on fast-moving lines given the annual cadence of validation. Lloyd's has noted that syndicates tend to underestimate the impact of a softening cycle when assessing rate adequacy and should not overlook these risks.<sup>16</sup>

Lloyd's Principles Based Oversight framework implies that regulatory burden is inversely proportional to governance quality. Separately, syndicates that focus on assumption quality, rather than regulatory compliance alone, will be best placed to produce outputs that withstand scrutiny as conditions further deteriorate.

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**How do you assess consistency between your model loss ratios and those used elsewhere in the business (i.e. business planning or reserving)?**

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## THE BIFURCATED MARKET

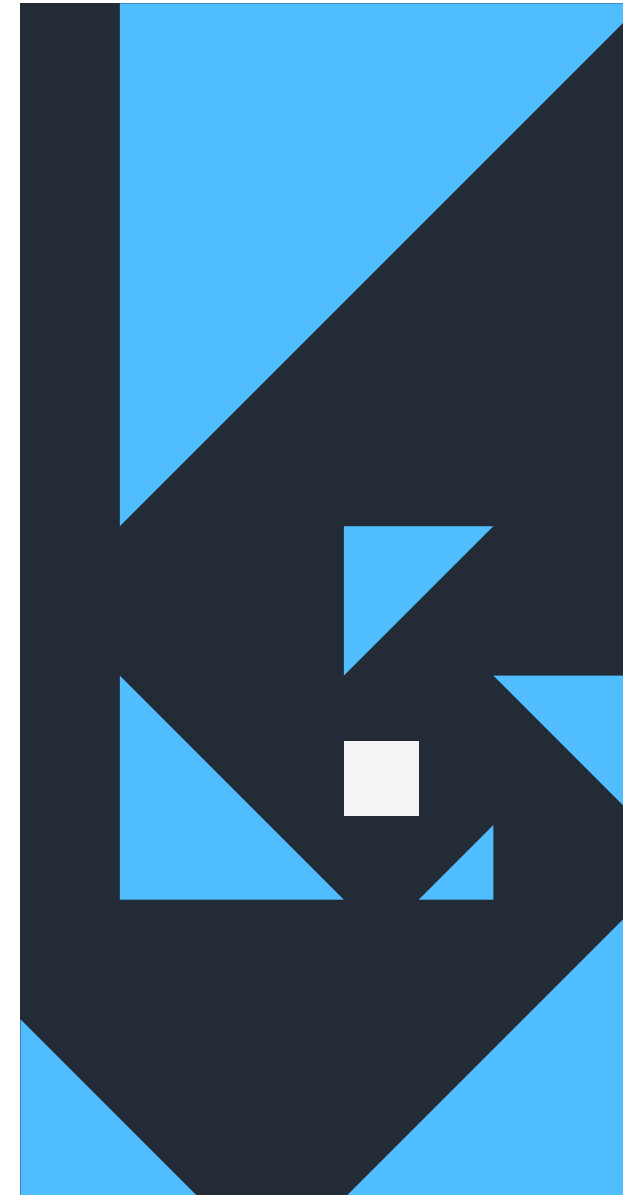
The soft market is not uniform. In November 2025, Lloyd's stated that casualty rates appear inadequate, rapid cyber expansion may be outstripping the market's risk capacity and property rates continue to soften.<sup>17</sup> Risk appetite frameworks that lack granularity could miss opportunities in lines that remain adequately priced and fail to detect exposure in lines where rates have deteriorated faster than expected.

Specialty risks present a different dynamic. Lloyd's has signalled openness to syndicates exploring complex credit, nuclear and structured reinsurance solutions.<sup>18</sup> Reinsurance costs are forecast to decline up to 15% in competitive lines,<sup>19</sup> and syndicates able to translate this into improved net positions on well-priced specialty lines may generate through-cycle returns. Syndicates with coherent governance across capital model outputs, underwriting monitoring and stress testing will also handle upcoming regulatory milestones more efficiently.

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**How does your firm allow for uncertainty around social inflation in its assessment of rate adequacy?**

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# Social inflation

## US SOCIAL INFLATION

Although US social inflation peaked in 2024, high levels persist and are driven by large court awards, which caused a 57% increase in US liability claim costs in the past decade.<sup>20</sup> Certain jurisdictions contribute more to losses than others: 60% of nuclear verdicts—those with awards exceeding \$10 million—mainly occur in California, Texas and Florida.<sup>21</sup> However, in some of these jurisdictions, such as Florida, tort reform has reduced the severity of lawsuits. The impact of social inflation on reserve development is discussed further in the Milliman paper [Updated reserve development in Lloyd's 2024 syndicate data](#).<sup>22</sup>

Nuclear verdicts not only affect commercial liability lines; they also have a sizeable effect on motor liability. Between 2009 and 2022, 9% of nuclear verdicts, by number, were for motor vehicle liability (behind product liability, 24%, and intellectual property, 20%).<sup>23</sup>

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**Do your stress tests account for social inflation separately from general inflation?**

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## EU SOCIAL INFLATION

Historically, social inflation has been more associated with US claims, but certain EU directives could see social inflation increase in Europe as well. The Product Liability Directive, which applies to products launched after December 2026,

reduces the burden of proof on plaintiffs when arguing in product liability cases regarding software and digital services (including AI). Moreover, in the case *Dhan Kumar Limbu and others v. Dyson Technology Limited*,<sup>24</sup> the UK supreme court held that Dyson could be found liable in UK for labour practices in Malaysia. This could set a precedent for similar cases and lead to large liability losses.

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**Does your liability modelling include impacts of legal changes by jurisdiction?**

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## LITIGATION FUNDING

Third-party litigation funding (TPLF) continues to be a key contributor to social inflation. In the EU, TPLF is expected to increase from €3 billion in 2025 to €7 billion in 2032; in the US, it is expected to reach \$31 billion by 2028.<sup>23</sup> As an investment opportunity, TPLF remains lucrative, with high multiples of initial investments and low correlation with other markets.<sup>25</sup> Regulation of TPLF varies widely by jurisdiction: the EU has paused its attempt at EU-wide regulation, whereas individual countries, such as Ireland, have prohibited it entirely.<sup>26</sup>

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**How is TPLF impacting the frequency of your liability claims?**

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# Climate

## NATURAL CATASTROPHES

In Europe, 2025 brought more extreme heat and drought, which contributed to more wildfires than in past years, as discussed in Milliman's annual report [Extreme weather in Europe](#). Globally, the costliest insured weather event was the California wildfires, which caused estimated losses of \$4 billion.

Going forward, wildfires are likely to become more common, challenging traditional risk-mapping and underwriting methods.<sup>27</sup> In the UK in particular, rising temperatures may expose more residences to flooding, continuing to drive up flood claim costs.<sup>28</sup>

## CATASTROPHE BONDS

The catastrophe bond market continues to grow, despite the rising frequency and severity of climate disasters.<sup>29</sup>

Insurers participate in about 60% of issuances, and the Los Angeles fires illustrate the value of these tools, given improved modelling and refined contract structures. Although the Palisades and Eaton fires did not trigger per-occurrence payouts, they did affect aggregate cat bonds and provided a real-world stress test for these structures.

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**How do you allow for the potential effects of reinsurance erosion and back-up covers?**

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## VOLATILITY AND MODELLING

Research from the Institute and Faculty of Actuaries and the University of Exeter highlights the dangers of underestimating climate sensitivity in catastrophe models.<sup>30</sup> Climate forecasting increasingly leverages AI to improve precision. However, most insurers still rely primarily on traditional models.

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**How do you gain comfort that the climate assumptions within catastrophe models are appropriate?**

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## REGULATION

In December 2025, the PRA published Supervisory Statement SS5/25, outlining expectations for insurers on climate risk management.<sup>31</sup> Firms were expected to complete an internal review of their current status by June 2026. A key focus is proportionality, where material risks can be assessed through different climate stress scenarios.

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**How do you expect climate scenarios to change following SS5/25?**

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# Emerging exposures

## ENVIRONMENTAL RISKS

PFAS (otherwise known as forever chemicals) remain an emerging risk to insurers, with litigation and regulatory scrutiny increasing in the UK, EU and US. Experts anticipate an increase in PFAS-related injury and environmental claims as new regulatory timetables take effect and claimants test liability in court.<sup>32</sup>

Awareness of risks relating to microplastics is also rising; manufacturers and food producers are facing scrutiny,<sup>33</sup> and underwriters want better disclosures and sustainability practices. With the implementation of mandatory annual reporting for emission estimates and microplastic data, insurers may need to adjust policy language.

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**How are emerging claims exposures monitored in your risk & capital management framework?**

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## FRAUD

In the UK, £1.16 billion worth of fraudulent general insurance claims were identified in 2024, more than half in motor insurance. The growth of AI will only further enable fraud. To help insurers manage this growing risk, Milliman published its report [Accidents that never happened: Generative AI and fraud in motor insurance](#).

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**How do you measure whether your anti-fraud controls are working?**

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## SPACE-RELATED RISKS

The expansion of commercial space activity and satellite networks could present a large future risk, particularly as a rise in orbital traffic could make collisions and debris events more common. At the same time, many new satellite operators opt for self-insurance, which may drive demand for more specialised coverage.<sup>34</sup> Cyber risk is also growing, with space-related cyberattacks increasing 118% from 2024 to 2025.<sup>35</sup>

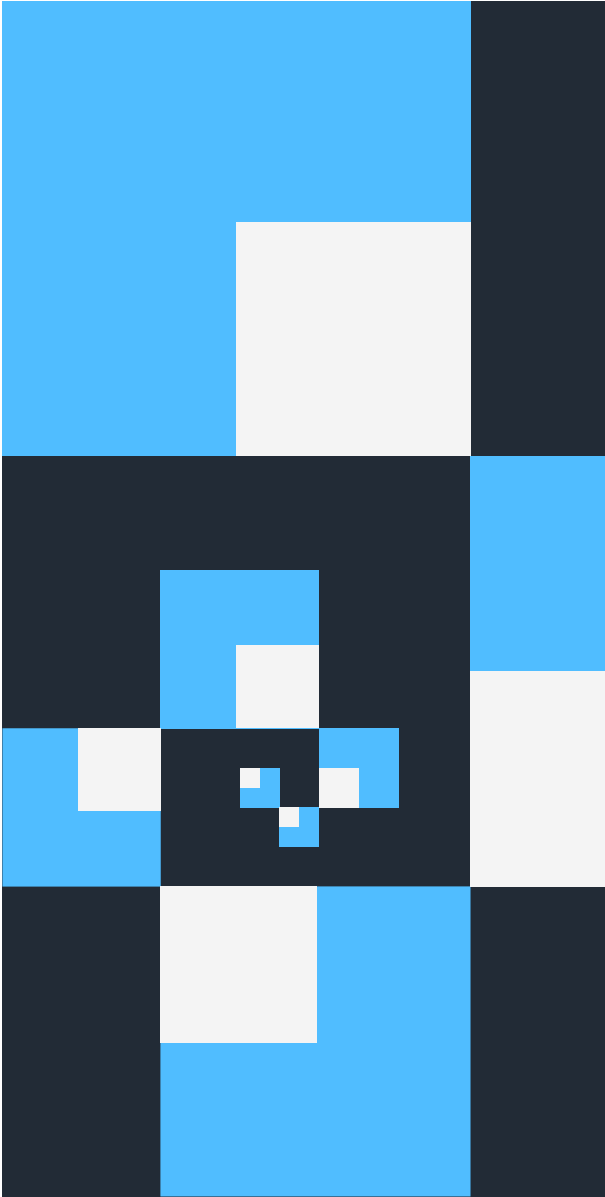
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**How have you adjusted tail dependencies for emerging risks where relevant historical data is sparse?**

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## INNOVATION AND EFFICIENCY IN A CUSTOMER-CENTRIC WORLD

As insurers respond to changing customer demands by offering personalised and flexible products, there is greater pressure to understand and manage emerging patterns of risk. The adoption of digital platforms and on-demand coverage models introduce new types of exposure and claims behaviours.



# Market landscape

### MGAS, DUAS AND INTERMEDIARIES

Delegated underwriting authorities (DUAs) and managing general agents (MGAs) continue to expand. More than half of MGAs are actively exploring acquisitions, and 40% plan to enter new territories.<sup>36</sup>

DUAs are expected to account for 45% of total UK market premium by 2027. Amid increased regulatory scrutiny, firms will need to show their Delegated Authority models are scalable, well-controlled and able to deliver both regulatory confidence and commercial value.

### EXPANSION METHODS

Global insurance M&A activities stabilised in 2025, following a significant drop in 2024<sup>37</sup>. Meanwhile, 57% of carriers expect to increase their capacity allocation through MGAs in the next two years.<sup>38</sup>

### ALTERNATIVE RISK TRANSFER

Demand for alternative risk transfer (ART) solutions continues to grow, as clients seek options for managing and transferring risk outside traditional insurance. Emerging UK legislation aims to make the region a more attractive domicile for captives.

Parametric solutions also are growing, particularly in regions with coverage gaps, given their faster claims processing and lower administrative burden. In 2025, Hurricane Melissa's landfall in Jamaica triggered a parametric policy that paid out \$150 million in less than two weeks.

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**How do you avoid risky growth in territories or lines of business where loss trends are changing fastest?**

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### REGULATORY LANDSCAPE

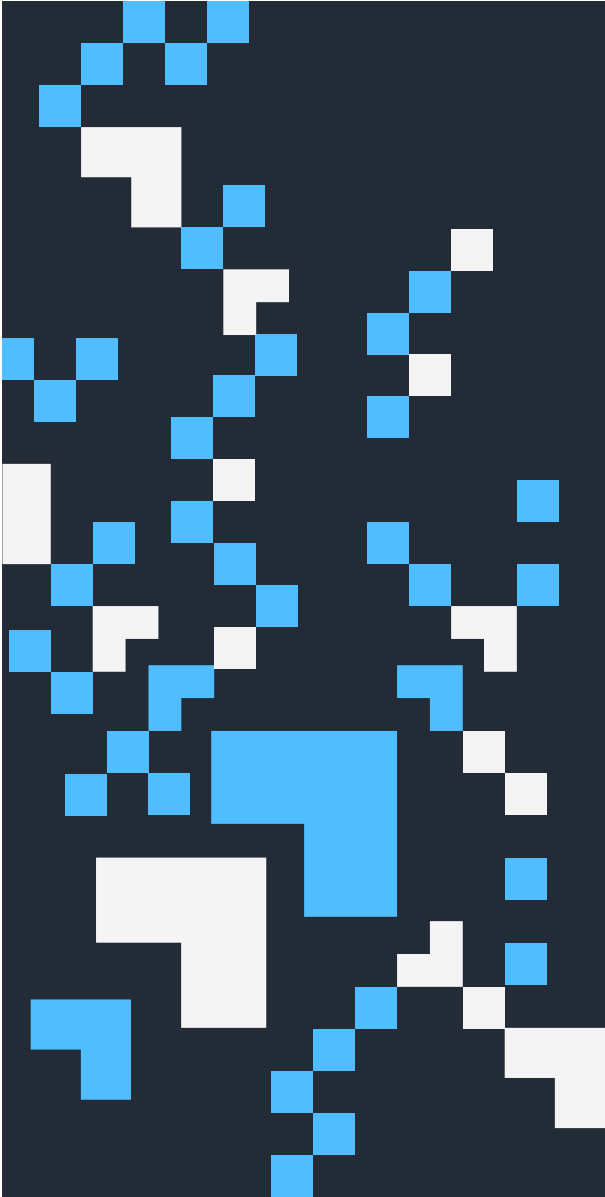
In 2026, UK general insurers are navigating regulatory change with the new Solvency UK regime and the Dynamic General Insurance Stress Test (DyGIST), which requires insurers to demonstrate they can withstand severe but realistic scenarios while maintaining financial resilience.

The European Central Bank is simplifying the process for updating internal models,<sup>39</sup> enabling insurers to respond more quickly to evolving risks and market conditions. Meanwhile, Lloyd's may introduce Partial Internal Models, which aim to simplify capital setting by allowing syndicates to be proportionate in how they model different risks.

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**From an operational resilience viewpoint, how have you prepared for DyGIST, and which existing scenarios do you find most challenging?**

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# Understanding the relationship between risk and reward

In a constantly changing world, insurers' capital modelling and risk management strategies must consider many headwinds, including the interrelated drivers of cyber and technology and geopolitical and climate risks. In the short to medium term, many companies will need to view these through the lens of softening market conditions and proactively navigate the cycle whilst pursuing their longer-term strategy. The emergence of new claims and the adoption of new operating models will test and challenge insurance leaders and create opportunities for those best prepared.

Milliman's experts can advise risk committees, board members and other senior leaders on the risk landscape and the right path forward.

Should you have any questions or require further information, please contact our team.

Eastcheap Court  
11 Philpot Lane  
London EC3M 8AA  
UK

[uk.milliman.com](https://uk.milliman.com)



**Yoke Hon Hue, FIA**

Consultant  
[yokehon.hue@milliman.com](mailto:yokehon.hue@milliman.com)



**Joshua Tomlin, FIA**

Principal and Consulting Actuary  
[joshua.tomlin@milliman.com](mailto:joshua.tomlin@milliman.com)



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