

H2 2025 Cyber Reinsurance Update

A Coming Inflection Point?

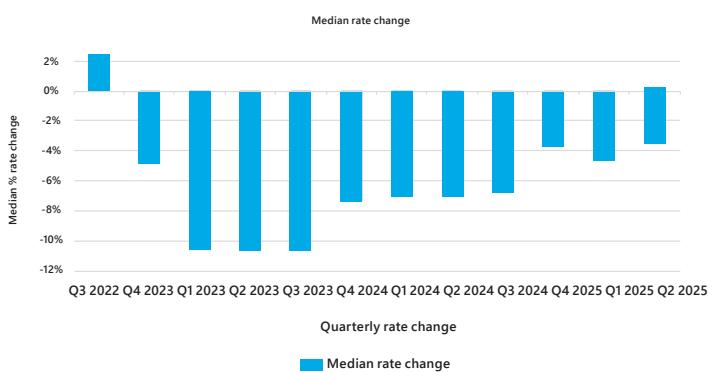


The six months since July 2025 have seen a high level of cyber incidents. This has been combined with the continued expansion of (re)insurance capacity, creating a tension between incumbent markets seeking continued growth in a historically profitable class of specialty insurance and increasing concerns over the potential severity of insured losses and wider systemic threats. Here, we examine the market trends and opportunities.

Introduction: a coming inflection point?

Since July 2025, we have witnessed two contradictory trends in the cyber (re)insurance market. Firstly, some of the most impactful and far-reaching cyber attacks in modern times have occurred. Secondly, and simultaneously, there have been continued rate reductions and an expansion of coverage within the cyber market. Cyber reinsurers have had muted reactions to the continued softening so far, but it is being closely watched. There are some who view the conditions in this market as reaching an inflection point and are no longer sustainable. There is evidence that, at least in the USA, we are witnessing a stabilization of rates. Figure 1 below shows the Lockton US retail policy holder rate change by each quarter, adjusted for revenue changes. Although there is wide variation, the trend is closer to neutral impact on rates.

Figure 1: Lockton US median rate change by quarter.



Reinsurer and direct carrier margins have continued to be squeezed as competition for buyers has intensified, and the challenge presented to many is judging what the criteria are to make the business profitable over the market cycle. This is further complicated by claims development in prior-years, particularly in relation to US-based web privacy litigation, which has grown in volume and severity.

Indications are that some markets, both in the direct and reinsurance market, are actively managing the market cycle to reduce their exposure to underpriced business. One influencing factor in assessing whether we are at the bottom of the market cycle is the interpretation of ransomware activity. Figure 2 suggests that overall volume of ransomware activity has increased. However, some reports¹ suggest that the frequency of successful attacks against companies with cyber

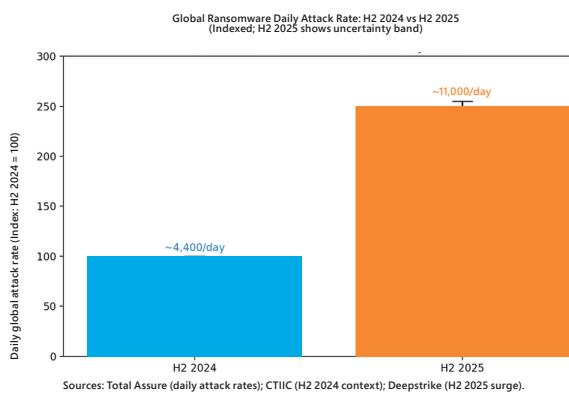
¹ McGowan, Emma. 2025. "2025 Midyear Cyber Risk Report - Resilience." Resilience. September 9, 2025. <https://cyberresilience.com/threatonomics/2025-midyear-cyber-risk-report/>.

“Some markets, both in the direct and reinsurance market, are actively managing the market cycle to reduce their exposure to underpriced business”

insurance is lower in 2025 compared with the prior year. For those attackers who overcome defensive measures, the loss severity of victims has increased. Those with cyber insurance appear to fare better due to improved controls compared to those without. The average claim cost has increased to over \$1.18 million compared with \$705,000 in 2024. The increasingly ubiquitous use of artificial intelligence (AI) by threat actors is improving the scale, reach and effectiveness of cyber attacks. Phishing emails are becoming even harder to spot, and there is an increase in non-English language scam emails due to the use of AI.

Figure 2 below shows the volume of daily ransomware activity for H2 2024 compared with the same period in 2025, as a leading indicator for cyber risks.

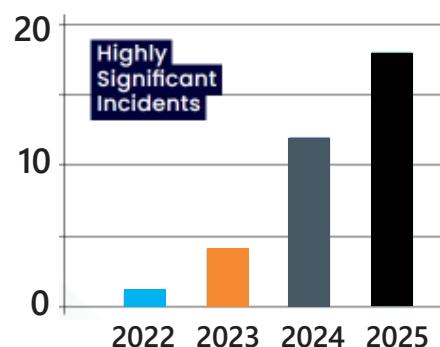
Figure 2: Ransomware attacks H2 2025 compared with H2 2024 on index basis.



One other perspective on the level of activity in cybercrime is the UK government's National Cyber Security Centre (NCSC) annual review², published in October 2025. It identified a 129% increase in what was categorized as 'nationally significant incidents', increasing from 89 to 204. Additionally, there were 18 "highly significant incidents", which represents a 50% increase over the previous year. The most impacted sectors include academia, financial services,

manufacturing, and retail. The motives appear to be a combination of geopolitical and financial. Figure 3 below shows the growth in this category of incidents over recent years.

Figure 3: UK NCSC highly significant incidents.



Events driving new non-proportional structures

The trend for cedants to grow their net risk appetite has continued in H2 2025. This has been particularly evident where portfolios are mature, have a critical mass of scale, and are well diversified. One perpetual key metric reinsurers closely scrutinize is the ratio of maximum gross limit compared with the premium. Portfolios, which are balanced and can withstand multiple gross limit losses, are more sought after by reinsurers.

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New reinsurers continue to enter the market, and as rates have reduced in the wake of continued new supply of capital, reinsurers are looking to find new ways of offering value to cedants. In the proportional segment, this has led to ceding commission changes ranging from stable to up by 1%. This has been partly influenced by reduced cessions from direct carriers, as more risk is retained net.

² "NCSC Annual Review 2025." 2025. Ncsc.gov.uk. 2025. <https://www.ncsc.gov.uk/collection/ncsc-annual-review-2025>. Date Accessed 14 October 2025

In contrast to the increasing confidence about attritional risk, there is ongoing concern about how a catastrophic event could manifest. There has been much discussion about cyber systemic risk, and this was illustrated by several high-profile events during H2 2025. Most notable was the Amazon Web Services AWS outage on October 20th, which lasted up to 15 hours for some services. Microsoft Azure also had an outage on October 29th, lasting up to eight hours. These events had limited insurance exposures due to a combination of insurance business interruption waiting periods and the limited purchase of cyber insurance by those most impacted. It highlights the interconnectedness of, and dependency on, many cloud services. There remains inherent uncertainty in the potential scale and footprint of a major cyber catastrophe (cat) event.

An additional indicator of the evolving view of cyber systemic risk is that there have been major version updates to the two most widely used cyber cat models. These include new methodologies, additional granularity in risk modifiers, and a refreshed data set. One common theme of both cat model updates is a more detailed and nuanced view of regional variation of cloud services. Previous representations of cloud services and networks implied a uniform global impact. The most recent models more closely represent the reality of regional availability zones and fail-over services.

For most portfolios, these new model versions have reduced expected simulated losses at lower return periods. There is also a new undertaking to refresh the realistic disaster scenarios used by some industry bodies. Preparation has begun by the UK Prudential Regulation Authority, which confirmed that a dynamic general insurance stress test will take place in May 2026. This will likely include elements of cyber-related systemic impacts.

All these factors are increasing the focus on types of non-proportional treaty structures, which can provide

the most value to buyers. Some reinsurers are supportive of lowering attachment points, while others are adapting policy wordings to cover a broader range of events and occurrences, without the need to explicitly address the uncertainty around event definitions.

This ongoing debate about event definitions relates to the fundamental question of what constitutes a 'cyber event'. This is critical to unlocking the expansion of non-proportional covers. Attempts to circumvent this challenge have included offering reinsurance, which protects covered losses within a certain timeframe (typically 30–90 days). There is an understanding that this type of approach may be more appropriate for certain types of portfolios than others. Additionally, given the limitations in loss data, it presents challenges for confidence in pricing and attachment. Other approaches are being tested in the market, such as so-called 'pillared' excess of loss programs, where different segments of a portfolio (e.g., by geography, distribution, or industry) are treated with varied attachment points in order to provide more comprehensive protection.

Opportunities for innovation

Given the rapidly changing nature of cyber perils, as the (re) insurance market matures, there is a potential future state where the market evolves into three broad categories of reinsurance for cyber related risks:

- a stable but modest proportional market
- a per-risk component to enable larger gross line sizes
- a cat event market to address systemic risks

The question of how long it may take to reach this state of maturity, and whether all these types of covers will fully develop, are still in the balance. The growing number of treaty structures emerging to address cyber exposures reflects a vibrant and dynamic market. As evidenced in

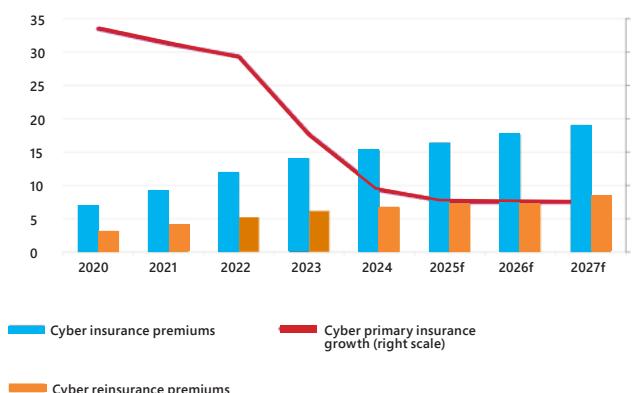


Figure 4 below from S&P Global, although the growth rate has slowed from the peak of the hard market when rate increases were the primary driver of premium growth, there is continued opportunity over the longer term for cyber market development, supported by a robust reinsurance market.

“The growing number of treaty structures emerging to address cyber exposures reflects a vibrant and dynamic market.”

Figure 4: Cyber (re)insurance growth and forecast, showing upside potential remains.³

Left axis: Cyber (re)insurance premiums (US\$ billion)
Right axis: Percentage annual growth rate



Retrocession

Retrocession capacity in cyber has been slower to develop compared with treaty reinsurance. There are several reasons for this. Firstly, one reservation by sellers of retrocession is the cost of acquiring the business. Given the multiple stakeholders between the original insured and the retrocessionaire, it is understandable and can reduce margins. Secondly, the portfolio data quality can vary such that there may be more opacity, making it harder to analyse specific portfolio trends and develop simulated loss modelling.

For markets looking to deploy capital in the cyber market, retro business has provided a useful entry point. New capital providers are partnering with key reinsurers with a demonstrated track record and appropriate investment in expertise in the cyber class of business. There has also been a growing interest in “hard retro,” in which excess of loss cover is offered to a non-proportional treaty portfolio. Notwithstanding the challenges of pricing this type of structure, it represents a new way for capital providers to support the emerging needs of the market.

Alternative capital comes back to the table⁴

Capital markets provide a diversifying source of capital to the cyber (re)insurance market. Since the advent of the first cat bond in 2023, over US\$1.35 billion of coverage limit has been deployed by over thirty institutional investors. Access to a tiny fraction of these managed assets, which equate to trillions of dollars across these investors alone, may be essential to the sustainability and longevity of the cyber market.

After an initial boom in public underwritten-Rule '144A' cyber bonds in 2024, Q1-Q3 of 2025 saw a lull in deal flow. This was partially attributed to the soft market cycle and commitment of investor capital on existing cyber bonds.

³ “Cyber Insurance Market Outlook 2026: S&P Global Ratings.” 2025. Spglobal.com. 2025 <https://www.spglobal.com/ratings/en/regulatory/article/cyber-insurance-market-outlook-2026-resilient-earnings-tougher-competition-pockets-of-growth-s101658506> All rights reserved 2025. Material is reproduced with permission of S&P Global Market Intelligence LLC and Standard & Poor's Financial Services LLC. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.”

⁴ Information current as of the time of writing, 19 December 2025. Sources: Artemis.bm, December 2025, and Bloomberg L.P. December 2025.

Alternative capital has come back to the table in Q4 of 2025. Beazley closed their seventh cyber bond in December 2025, part of the 'PoleStar Re' series, and Chubb are renewing "East Lane." The themes are upsized limits, lower prices, and even expansion to the first aggregate event coverage for Chubb. The Cyber Insurance-Linked Securities (ILS) market seems periodically bullish, as initially reticent investors view the peril as an avenue for attractive returns when underwritten diligently. As these cat bonds tend to sit above traditional event excess of loss reinsurance layers, there could be healthy competition between the two parties, to the advantage of cedants.

Whilst indemnity reinsurers do make up the majority of the fifteen cat bonds issued to date, several buyers opened the door to other options, namely, industry loss warranties and parametric. This innovation critically provides the cedant and investor with choice and encourages a broader range of buyers to explore the capital markets.

There are, of course, gating factors to successfully executing your first cyber bond, which may explain why there have been five buyers to date. These parties are among the largest cyber (re)insurers seemingly investing in their longer-term capital needs and willing to dedicate the initial time, resources and energy required. Creating an event strategy does require dedication, although timelines and fees are substantially reduced now the core framework is in place. It also helps that a range of investors are actively encouraging more cedants to market.

Lockton Re Capital Markets sees this over a longer-term horizon. Most agree that cyber cat risk is only increasing; there is no disguising it. It may, therefore, pay dividends to begin planning a cat reinsurance and alternative capital strategy that best meets the possible shape of the market's first major cyber catastrophe event. This cycle proves an excellent time to make reinsurers and investors part of those plans.

“Begin planning a catastrophe reinsurance and alternative capital strategy that best meets the possible shape of the market's first major cyber cat event. The timing is excellent to make reinsurers and investors part of those plans. ”

Under the government microscope

One particularly eye-catching development in H2 2025 was the UK government's guarantee of £1.5 billion behind the commercial loan provided to Jaguar Land Rover in the aftermath of the cyber attack, which caused manufacturing production to stop on September 1, 2025. It is the first time there has been a specific government intervention following a cyber event. The primary objective was to support smaller organisations in the auto manufacturing supply chain, especially given the number of jobs at risk. These funds have not been drawn on to date, but it raises questions regarding the incentives and appetite for government support following cyber incidents. The situation highlights the complexity and competing tensions of government involvement in providing support for the most extreme potential impacts of cyber events, which are currently outside the risk appetite and ability of the insurance industry to cover.

Push for expansion

The cyber (re)insurance market continues to outpace growth in its major and emerging markets compared with other commercial property and casualty classes of insurance. A key priority for 2026 will be to successfully demonstrate value to additional new buyers, so that first-time policyholders, especially among SMEs and in new territories, benefit from protection, as well as enable increased diversification for insurers and reinsurers alike.

Authors, Contacts, and Sources

AUTHORS

Oliver Brew, ACII

Head of Cyber Centre of Excellence

+44 (0)7384 248 268

oliver.brew@lockton.com

Theo Norris, CFA

Lockton Re Capital Markets,

International Capital Markets Structuring and Cyber

ILS Lead

+44 (0)7350 370 616

theo.norris@lockton.com

CONTACTS

London

Matthew Silley, FIA

International Cyber Practice Leader

The St Botolph Building | 138 Houndsditch | London

| EC3A 7AG

+44 (0)7391 387 699

matthew.silley@lockton.com

Jemima Hopper, ACII

Cyber Reinsurance Broker

+44 (0)7350 436 652

jemima.hopper@lockton.com

New York

Brian Lewis

US Cyber Practice Leader

261 Fifth Avenue, 10th Floor | New York, NY | 10016

+1 646 279 1940

brian.lewis@lockton.com

Caitlin Barnett

Cyber Reinsurance Broker

+1 (929) 675 9132

caitlin.barnett@lockton.com

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www.locktonre.com

261 Fifth Avenue, New York • NY 10016

The St. Botolph Building, 138 Houndsditch • London EC3A 7AG

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