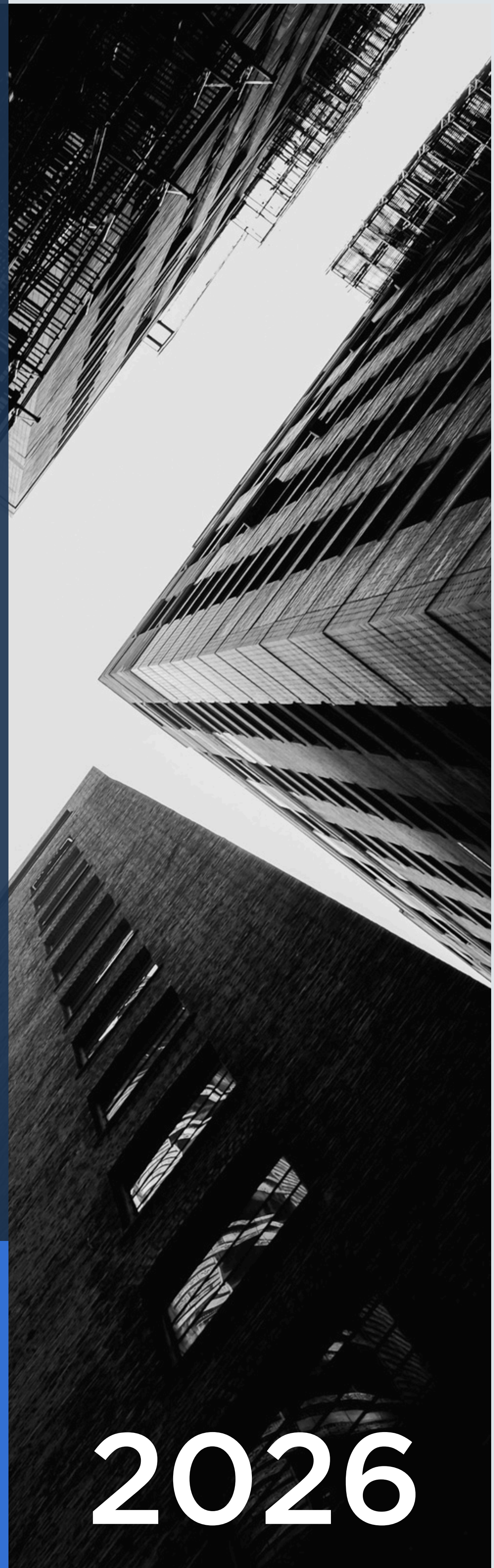
STATE OF THE MARKET REPORT

NLC MUTUAL
INSURANCE COMPANY



2026

State of the Market 2026

Overall Market

EXECUTIVE SUMMARY

This report brings together market data from several brokerage firms to provide a high-level view of the 2026 reinsurance landscape for public entities. It highlights overall market conditions and key trends across property, liability, and workers' compensation that may influence renewal outcomes, coverage strategy, and budget stability for public entity pools.

Reinsurance capacity remains strong, supported by both traditional and alternative capital, contributing to competitive conditions in several areas of the market. While conditions vary by coverage line, reinsurers continue to emphasize disciplined underwriting, with outcomes shaped by loss experience, exposure characteristics, and program structure. These dynamics present both opportunities and considerations as public entities plan for the 2026 renewal cycle.

WHAT'S ON THE HORIZON?

Reinsurance capital remains near record levels, supporting competitive conditions and stable retentions, particularly on the property side. Alternative capital continues to expand and play a growing role in overall market capacity.

IMPLICATIONS FOR PUBLIC ENTITIES

Public entity pools have increased access to reinsurance options that support budget stability and reduce volatility. Greater capacity and competition are contributing to improved pricing and flexibility in program design.

OUTLOOK BY COVERAGE LINE

Property

Ample capacity, moderating rates, and continued emphasis on catastrophe resilience.

Workers' Compensation

Steady performance with early signs of medical-cost pressure.

Liability

Stable conditions with cautious underwriting and growing attention to social inflation.

Property

MARKET CONDITIONS

The property market has softened significantly, with the key drivers being excess capacity, oversubscription and valuation scrutiny. Retentions remain broadly stable.

PRICING

Public entities are seeing double-digit rate decreases (typically –10% to –20%) on non-loss-impacted catastrophe programs as competition accelerates.

CATASTROPHE LOSSES

2025 catastrophe losses again exceeded $100B, driven by severe convective storms (SCS) and wildfires, but a benign hurricane season. This is the third consecutive year of elevated losses, though higher attachments since 2023 kept more losses in primary retentions.

VALUATIONS

aluation discipline remains a key focus for reinsurers, with an expectation of current, well-supported building values—particularly roof age, construction, and mitigation features. Outdated or understated values can limit market appetite or reduce pricing benefits.

CAPACITY & LONG-TERM STABILITY

Global and alternative capital continues to outpace demand, creating broader panel options, oversubscribed layers, and growing use of multiyear ILS structures. This environment provides public entities with stronger pricing leverage and more stable long-term protection.

State of the Market 2026

Workers’ Compensation

MARKET OVERVIEW

Workers’ Compensation remains the most stable line, with combined ratios in the mid-80s, strong profitability, and ample capacity. Rate expectations remain flat to –5%/+5%, reflecting sustained favorable performance.

4 EMERGING SEVERITY DRIVERS

While stability continues, several trends should remain on your radar, and public-entity retention choices should reflect potential outliers.

- Aging Workforce
- Medical Inflation
- Mega Claims
- Mental Health & Cumulative Trauma

PURCHASING & CAPACITY

Treaty capacity remains ample, and many cedants are using savings to strengthen their overall protection strategies—particularly for safety-sensitive operations such as transit and public works.

PROTECTION APPROCHES BEING ADDED:

Aggregate / Frequency Protection

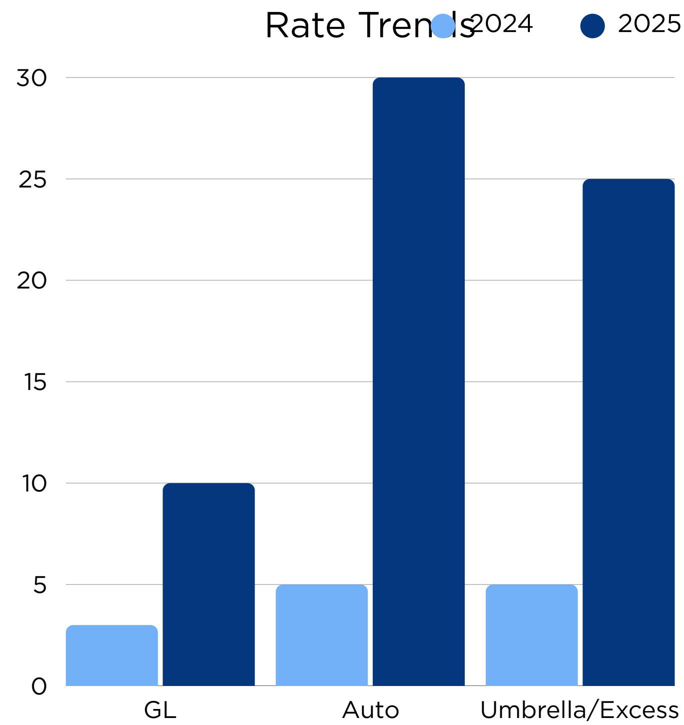
Cat / Single-Claimant Layer Stress Testing

State of the Market 2026

Liability

MARKET OVERVIEW

The liability market is firming, driven by four categories. Rate trends are mixed but generally trending upward, see graph. Layer outcomes remain nuanced: pro-rata treaties often renewed per expiring with some commission improvement, while lower-attaching XoL layers faced more pressure tied to social inflation and nuclear-verdict volatility. Higher-attaching XoL layers benefited from expanded traditional and third-party capacity and are renewing flat to slightly down.



Source: Alliant SOTM

4 KEY SEVERITY DRIVERS

1. Social Inflation & Litigation Funding

Social inflation and third-party litigation funding continue to elevate loss severity and defense costs, with nuclear verdict activity persisting.

2. Traumatic Brain Injury (TBI)

TBI allegations continue to intensify severity in both auto and law-enforcement losses. These claims frequently push into excess layers and contribute to volatility in program structures.

3. Law Enforcement & Transportation

These exposures continue to rise in severity, driven by pursuit-related losses and TBI narratives. Police pursuit claims make up ~30% of public-sector losses over $1M, and increasing federal civil rights pleadings is enabling plaintiffs to bypass state tort caps.

4. Sexual Abuse/Misconduct (SAM)

SAM claims continue to drive some of the largest and most unpredictable losses, prompting carriers to cap limits, add exclusions or sublimits, and scrutinize governance and prevention efforts, tightening market capacity.

$5M

LINE CAPS

CAPACITY IMPACT FOR PUBLIC ENTITIES

Escalating severity in law enforcement, street/road design, and SAM claims continues to constrain lead-layer liability capacity. Carriers are often capping lines at $5M, pushing public-entity towers toward quota shares, higher SIRs, and selective excess placements.

About Us

In 1986, six state league-sponsored risk pools designed a member-owned captive reinsurance organization to meet turbulent market challenges. NLC Mutual Insurance Company (NLC Mutual) was founded to provide a stable reinsurance answer for public entities in partnership with the National League of Cities (NLC).

Today, NLC Mutual is a dynamic pool of pools, a member-powered collaborative community comprised of 32 state league-sponsored risk pools. We support reinsurance coverage for liability, property, and workers' compensation as well as additional specialty coverages and services.

Notice and Disclaimer: This report is a compilation of data and insights sourced from various third-party providers listed below. While the information contained herein is believed to be reliable at the time of publication, the data points and/or methodology used by these third parties has not been independently verified and NLC Mutual Insurance Company makes no representation or warranty, express or implied, as to its accuracy, completeness, or correctness. The insights provided are for informational purposes only and do not constitute professional advice. Use of this data is at the user's own risk. Any projections or forecasts are inherently uncertain and are based on the assumptions of the original authors.

Sources: Alliant, AmWINS, AON, Gallagher Re, Guy Carpenter

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