EMEA Insurance Outlook 2024

Navigating the way home

S&P Global Ratings

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This report does not constitute a rating action

European Insurers | A Difficult Legacy

- Rapidly soaring interest rates in 2022 left European insurers with immense unrealized losses on their fixed income investments.
- These devalued by more than €500 billion in Europe (excluding the U.K.) reflecting a double-digit negative return on investments, including unrealized gains and losses.
- We estimate that the pull to par for high quality fixed income investments might take a decade or more, based on our forecast of only gradually declining long-term yields in 2024-2026.
- We remain cautious on illiquid investments, real estate, private equity, and private debt, which life insurers added during the lower-for-longer yield environment.
- For insurers we rate, we do not foresee any forced selling of assets because of a hypothetical life insurance mass lapse, or massive natural catastrophe events.
- The insurance machine is slow to turn, but sturdy on its long journey to recovery.

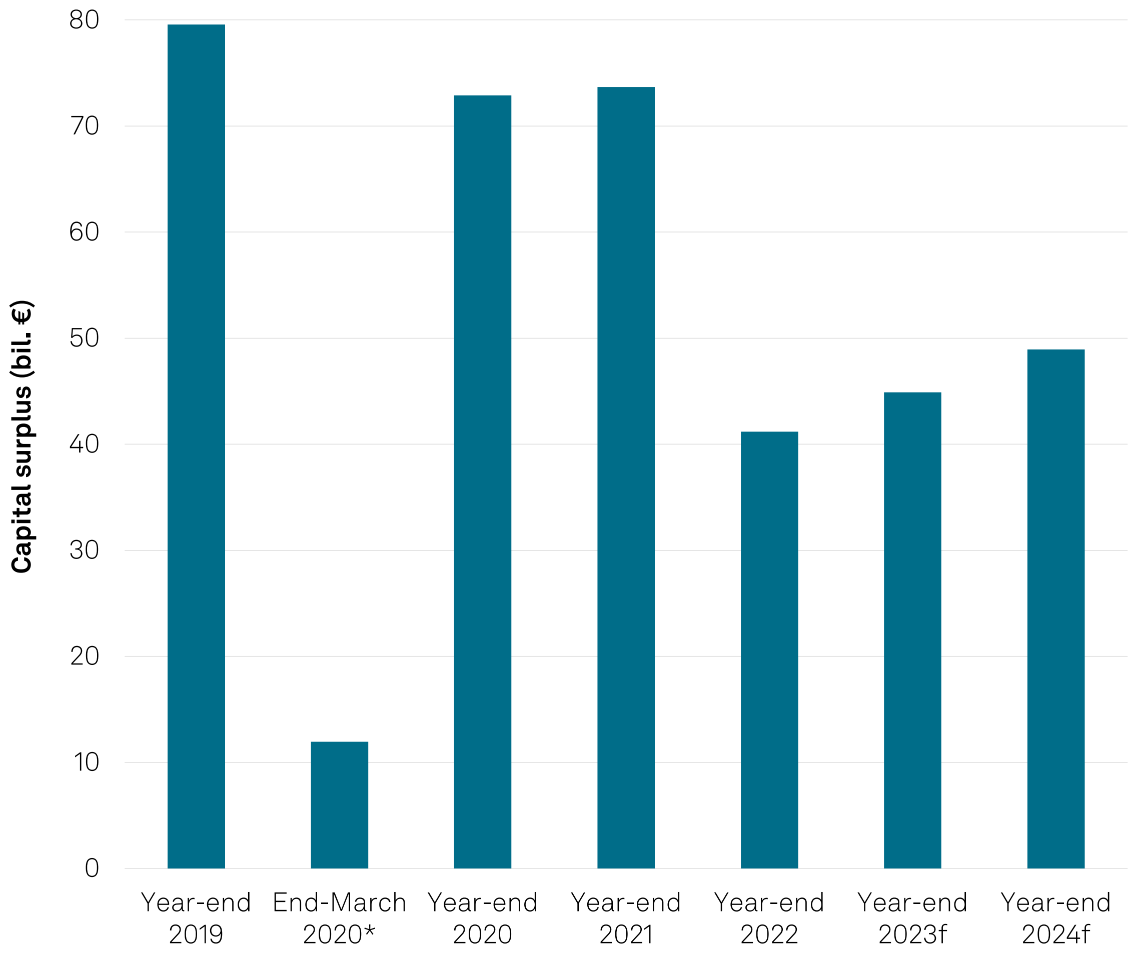
Strong rating position	Resilient outlook	Capital adequacy	Liquidity
69%	83%	Sector average is "Very Strong"	For 65% of insurers
'A' category ratings	Stable outlook	Capital surplus	Exceptional score

As of Oct. 23, 2023

S&P Global Ratings

Unrealized Investment Losses In Context | EMEA Insurers' Capital Surplus

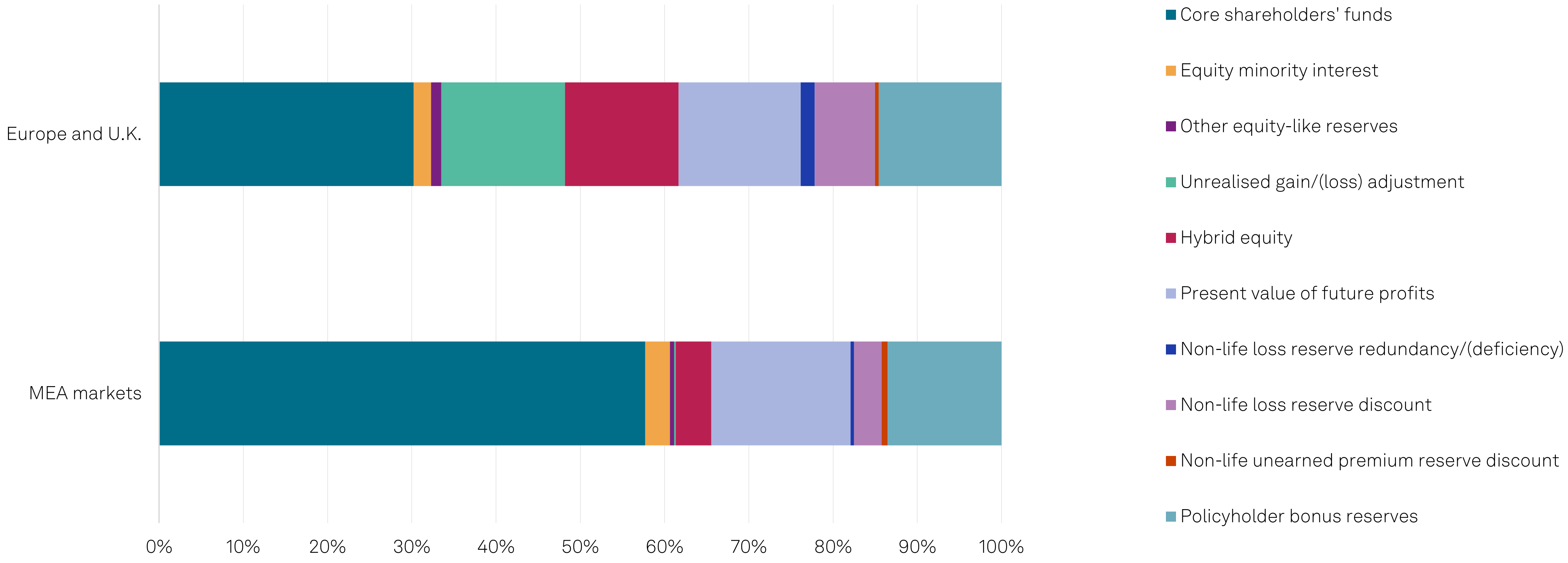
- The capital surplus required on top of minimum capital adequacy to support the current ratings remains a key strength for EMEA insurers.
- In 2022, a drop in the value of insurers' investments, including non-life bonds, eroded their capital surpluses by about €30 billion.
- We expect unrealized losses on high-quality bond investments to pull to par over time--more rapidly with non-life insurers than with life insurers--by almost 5% per year on average.
- So far impairments on illiquid, and lower credit-quality investments are minimal, and will remain manageable over 2024-2025.
- Participating life insurance policyholders will absorb some of those investment losses, while non-life insurers might take the full, but smaller hit.
- The drop in capital surplus mainly hit European insurers, while the Middle Eastern and African (MEA) markets did not record such rapid changes in interest rates, so their capital surplus remained almost unaffected.



*Signifies capital market trough due to COVID-19 pandemic. f--Forecast. Source: S&P Global Ratings.

Capital Quality | Maintained Support From Net Unrealized Gains

The composition of total adjusted capital (TAC) resources varies between European and MEA insurers

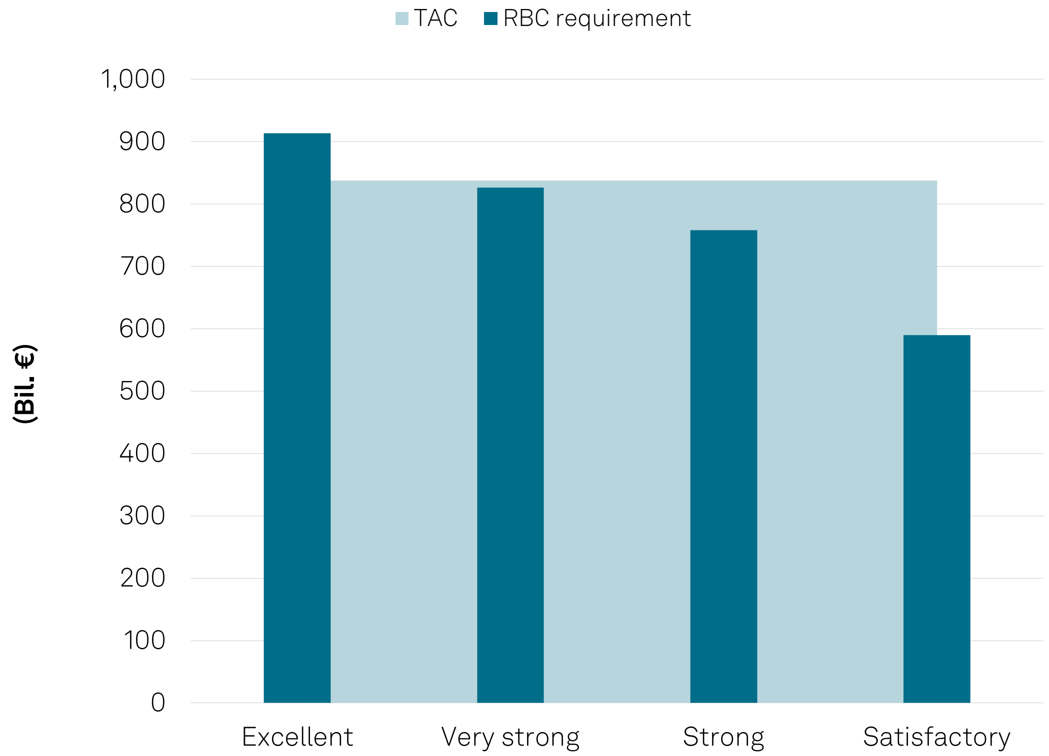


Source: S&P Global Ratings.

Capital Adequacy | Very Strong Level Of Capital Throughout EMEA

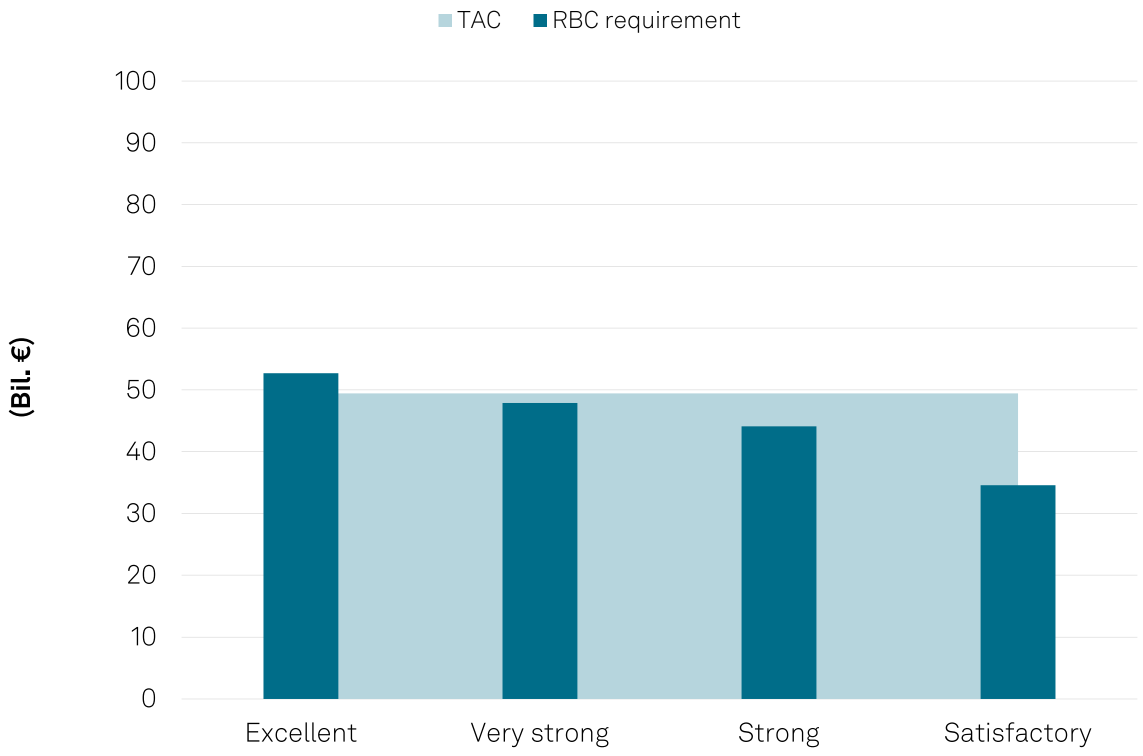
- TAC slightly exceeds the very strong risk-based capital requirements, mostly supporting ratings at the 'A' level

Capital adequacy in Europe and the U.K.



Source: S&P Global Ratings.

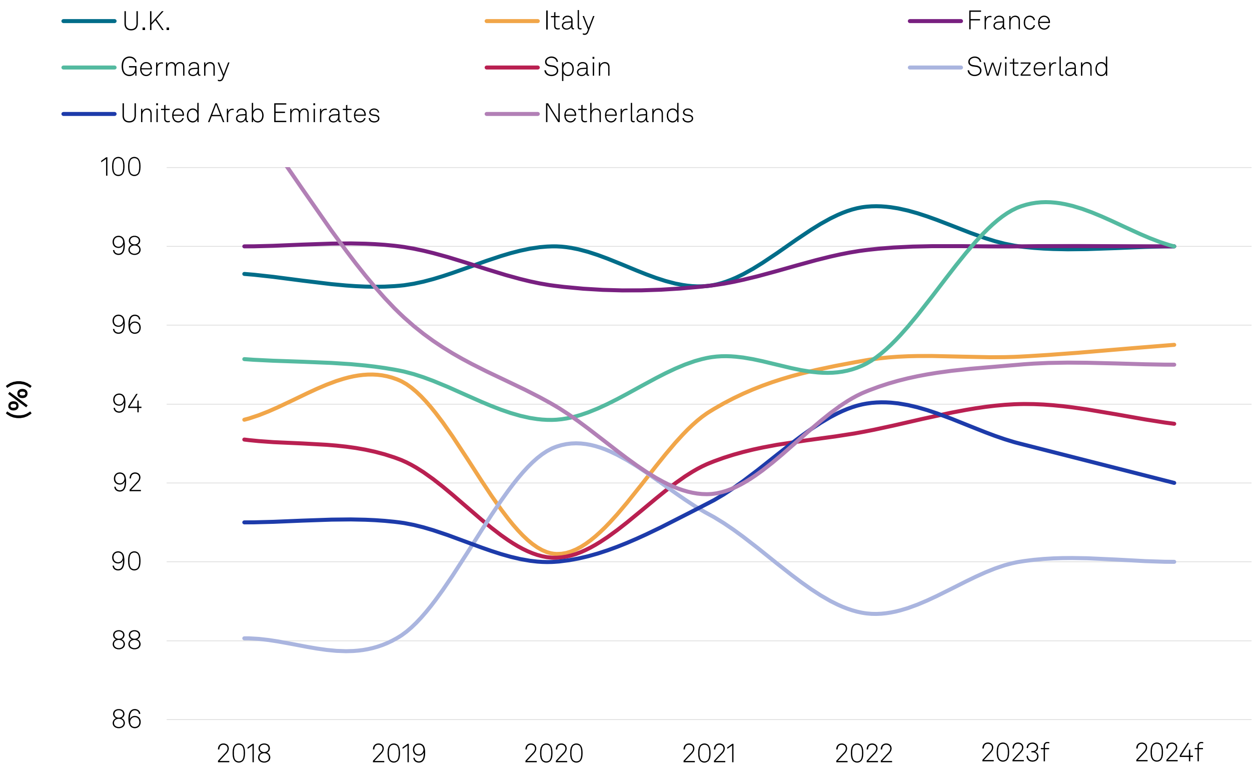
Capital adequacy in MEA



Property/Casualty | No Higher For Longer Inflation

- We expect non-life insurers we rate to continue performing robustly, despite heightened inflation.
- Amid muted GDP growth, many rated non-life insurers raised their premium rates, offsetting inflation in 2022-2023.
- However, we observed some primary insurers in Europe struggling to get ahead of the curve, and reporting a worsening combined ratio.
- We expect eurozone inflation to drop to 2.7% in 2024 from 5.8% in 2023, and in the U.K. to fall to 2.4% from 7.0%.
- Re-insurers benefit from a hard market and we believe they will continue to post renewals with material premium rate increases.
- We note that reserve strengthening is required to reflect inflation, but at a very limited and manageable level.

Property/casualty combined (loss and expense) ratio

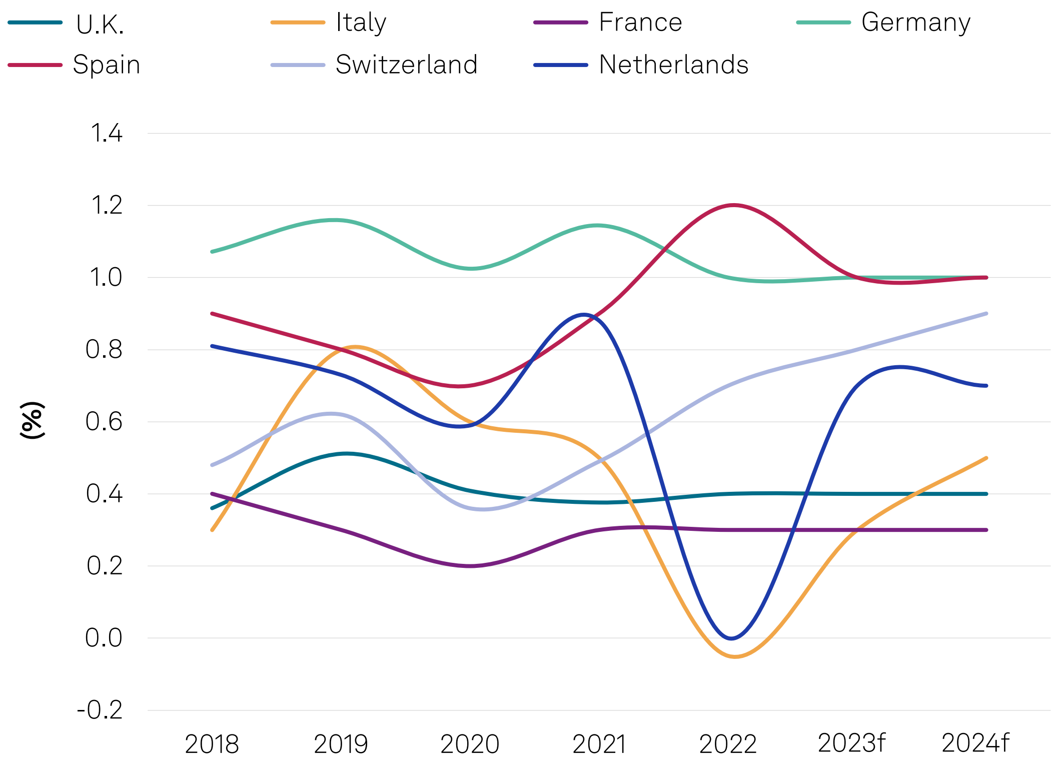


f--Forecast. Source: S&P Global Ratings

Life Insurance | Investment Concerns

- Life insurers face competition from banks offering attractive deposit rates.
- This could hamper potential new business but should not materially affect the existing book of business, as life and annuity product lapses often come with a market value reduction.
- Tax benefits and terminal bonus rates--benefits only available at contract maturity--also limit lapse rates.
- Elevated interest rates may allow the slightly higher bonus rates offered to exceed the marginally increased investment margins achieved so far.
- All EMEA life insurers we rate display at least adequate liquidity, but we continue to monitor insurers' liquidity positions closely.

Life return on assets

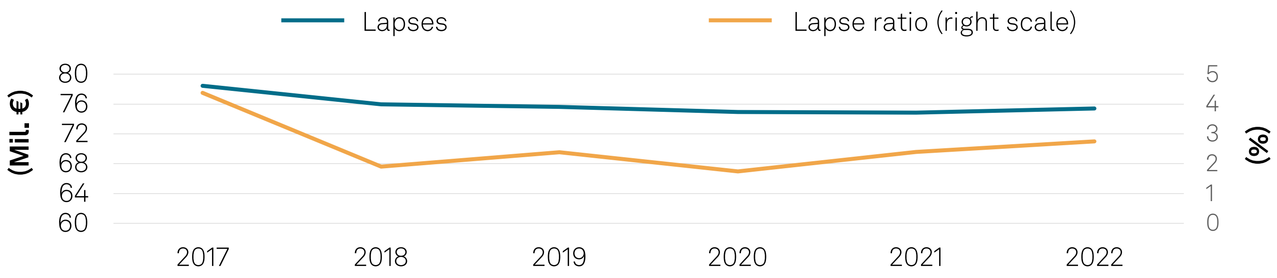


f--Forecast. Source: S&P Global Ratings.

Life Insurance | No "Insurance Run" In Sight

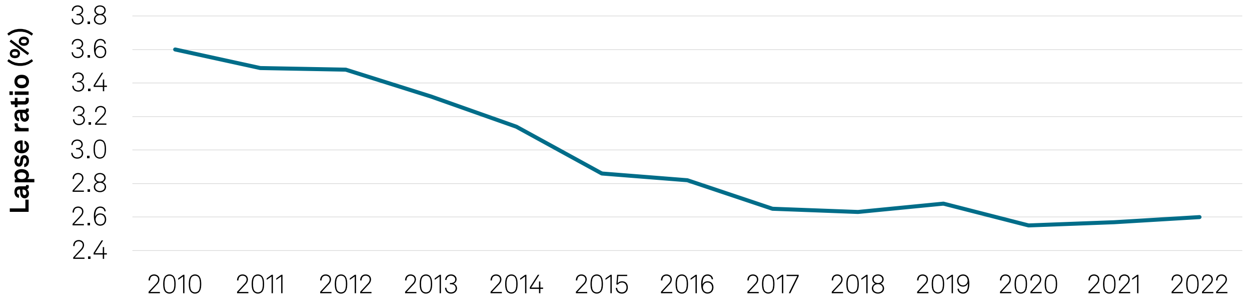
- Competition from banks offering attractive bank deposit rates has taken its toll on new business growth prospects and led to some life insurers increasing bonus rates.
- However, we do not expect any material impact on the existing book of contracts for the major European life markets.
- Recent lapse experience in the European life markets does not indicate a much higher lapse ratio than seen in 2022 and 2023 so far, and we do not foresee any significant rise in 2024.
- We believe that the above-mentioned structural difference between the bank and insurance sector persists, and we not expect any material "Insurance Run".
- Thus, unrealized losses on life insurers' investments might be realized only on purpose, or where impairments happen, for example, in the less liquid space.

Lapses in the French life market remained stable despite higher interest rates



Sources: ACPR, France Assureurs, S&P Global Ratings.

German life insurance also remained stable



Source: GDV.

External Factors | Cross Sector Credit Conditions Key Risks

Risk	Risk Level	Risk Trend
Recession in Europe remains a downside risk	High	Unchanged
Tighter financing conditions will test financial vulnerabilities	High	Unchanged
Escalation of the Russia-Ukraine conflict could have a destabilizing effect	High	Unchanged
Real estate companies' exposure to cost of capital remains high	Elevated	Unchanged
China's structural economic slowdown amplifies potential spillovers from international trade tensions	Moderate	Unchanged
Disruptions linked to climate change and the energy transition could increase	Elevated	Worsening
Cyber risks rise	Elevated	Worsening

Risk levels may be classified as very low, moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high. Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months. Source: S&P Global Ratings.

Insurance Key Risks | Insurers' Investments Still Top The List

Risk factor	Descriptor	Risk Level	Risk Trend
Asset risk	Life insurers' exposure to illiquid investments in real estate, private equity, and private debt might trigger impairments in 2024-2025.	Elevated	Unchanged
Insurance claims	The increase in claims cost might outweigh the increase in premiums, if rate rises do not keep pace with claims inflation.	Moderate	Unchanged
Insurance top line	Muted top-line prospects.	Moderate	Unchanged
Financing conditions	Higher refinancing costs are unlikely to trigger any rating actions.	Moderate	Unchanged
Hybrid ratings	Solvency ratios remain strong, and deferral/payment risk is well contained for the hybrids we rate.	Low	Unchanged
Climate transition	Delay in the transition to carbon-neutral energy supply due to the immediate need for energy.	Moderate	Unchanged
Cyber risk	Pickup in cyber attacks continues to challenge insurers' firewalls and their cyber insurance exposure.	Moderate	Unchanged

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