European Insurance Outlook 2025

Holding Up Well

S&P Global
Ratings

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This report does not constitute a rating action

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European Insurers | Strong And Stable

- In aggregate, the European insurers we rate display capital adequacy at the highest confidence level of 99.99%.
- We expect listed insurers' progressive dividends and share buybacks to actively reduce their capital surplus, but it should still provide a robust buffer against external events.
- Despite some exposure to illiquid investments, a limited appetite for investment risk is evident from insurers' minimal impairments, for example, on real estate investments.
- European life and non-life insurers might not display much top-line growth due to muted GDP expectations and competition, but their existing portfolios maintain a solid margin.
- External shocks, like geopolitical risks, leading to a financial crisis-like scenario might affect the ratings on some insurers we rate, but most ratings should prove resilient.
- The strengths of the European insurers we rate are evident from an average rating in the 'A' category, predominantly stable outlooks, and more positive than negative outlooks.

Ratings	Outlooks	Capital adequacy	Liquidity
62% of insurers have 'A' category ratings, 24% 'AA' category ratings	87% of insurers have stable outlooks	65% of insurers are at a 99.95% confidence level and above	67% of insurers have exceptional liquidity

Ratings and outlooks as of Nov. 7, 2024. Capital adequacy and liquidity scores are based on the main entity as of Oct. 16, 2024.

European Credit Conditions | Top External Risks

Top external risks	Risk level*	Risk trend§
Regional wars spill over	High	Worsening
International trade tensions extend to Europe	Elevated	Unchanged
Low economic growth in Europe continues	Elevated	Unchanged
Rates could settle above neutral levels	Elevated	Improving
Real estate risk to the broader economy increases	Elevated	Improving
Structural risks		
Disruptions linked to climate change and the energy transition could increase	Elevated	Worsening
Cyber risks are gaining ground	Elevated	Worsening

*We may classify risk levels as low, moderate, elevated, high, or very high, and we evaluate them by considering both the likelihood and systemic impact of such an event occurring over the next one-to-two years. Typically, we do not factor these risks into our base-case rating assumptions unless the risk level is very high. §Risk trend reflects our current view on whether the risk level could increase or decrease over the next 12 months. Source: S&P Global Ratings.

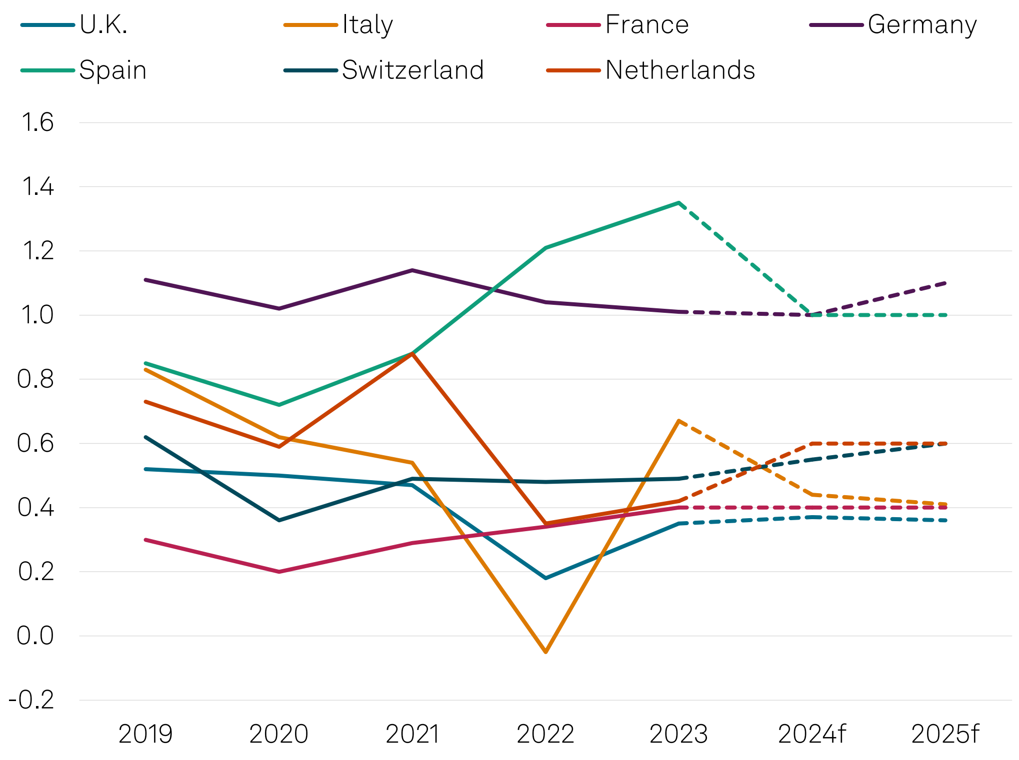
European Insurance | Top Risks

Top European risks	Risk level*	Risk trend§
Geopolitical conflicts affecting capital markets and insurers' investments	Elevated	Worsening
Elevated claims inflation	Moderate	Unchanged
Muted top-line growth in life insurance	Moderate	Unchanged
Liquidity risk	Low	Unchanged
Financing conditions for insurance companies / insurance hybrid debt ratings	Low	Unchanged
Structural risks		
Disruptions linked to climate change and the energy transition could increase	Low	Unchanged
Cyber risks are gaining ground (attacks on insurers' data, and cyber insurance)	Elevated	Unchanged

*We may classify risk levels as low, moderate, elevated, high, or very high, and we evaluate them by considering both the likelihood and systemic impact of such an event occurring over the next one-to-two years. Typically, we do not factor these risks into our base-case rating assumptions unless the risk level is very high. §Risk trend reflects our current view on whether the risk level could increase or decrease over the next 12 months. Source: S&P Global Ratings.

European Life Insurers | Competition With Banks For New Business

Life return on assets

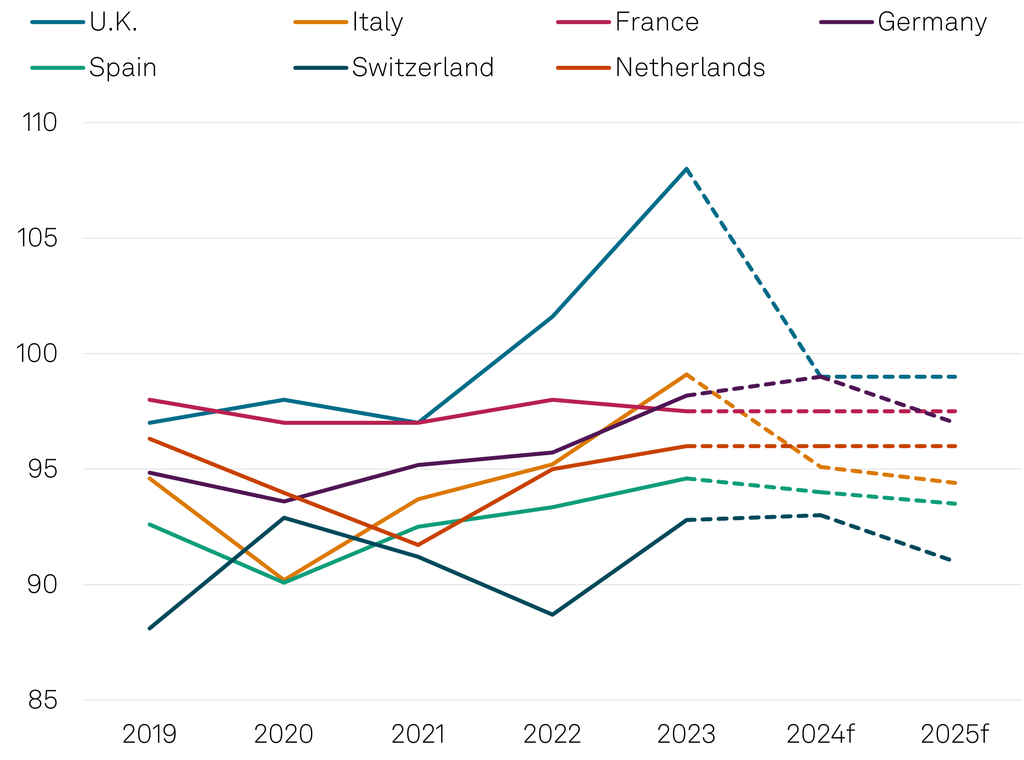


f--Forecast. Source: S&P Global Ratings.

- European life insurers have proved resilient to low and negative interest rates in the past.
- While central banks keep cutting rates, reinvestment rates are still rising gradually thanks to the long duration of the asset portfolio.
- Banks' attractive deposit rates for new money are reducing new business volumes.
- However, the existing portfolio is stable, and we have not seen a material increase in lapses except in Italy.
- We expect life insurers to continue to offer unit-linked and protection products and not actively push traditional guaranteed products.
- The more favorable interest rate environment has supported the move to plain vanilla investments, gradually reducing the share of illiquid assets further.
- Real estate exposure makes up a single-digit proportion of insurance assets except in Switzerland. In most of these cases, investments have only led to negligible impairments, confirming European life insurers' limited investment risk appetite.

European Property/Casualty Insurers | Claims Inflation

Property/casualty combined ratio (%)

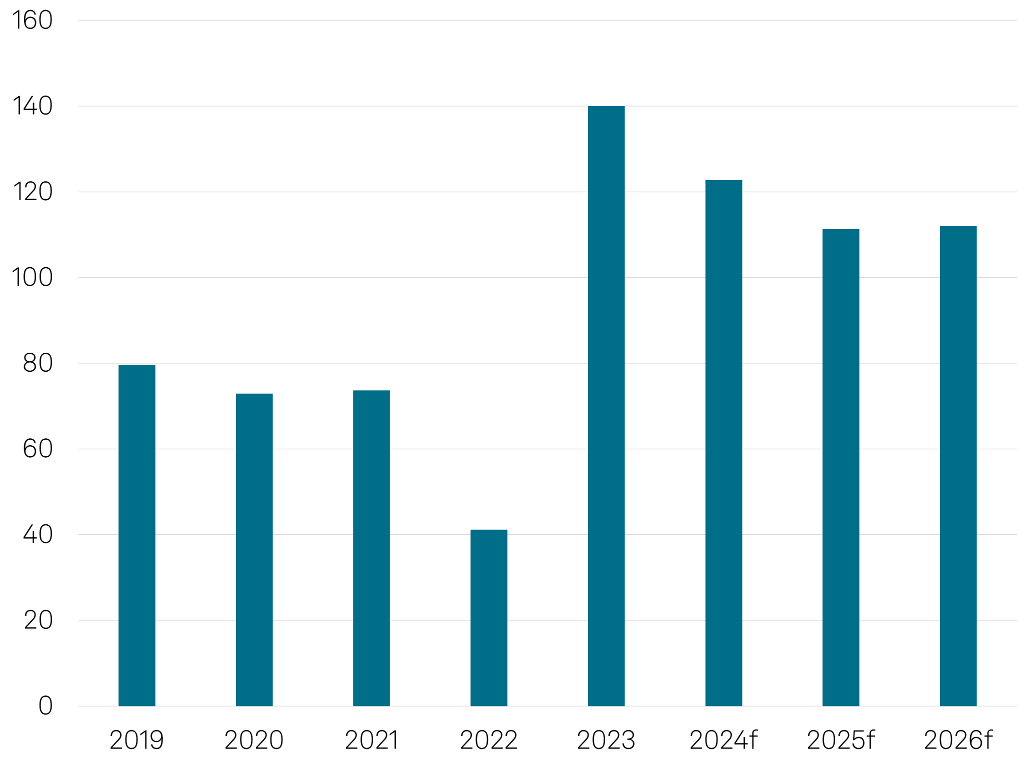


f--Forecast. Source: S&P Global Ratings.

- We observe that claims inflation in many European markets remains consistently higher than the Consumer Price Index (CPI).
- This mainly affects the motor insurance segment, with more expensive car parts and wage inflation increasing car repair costs.
- We expect premium rate increases to continue, especially in the motor segment.
- We believe that reserve adequacy is holding up well.
- In most European property and casualty (P/C) markets, we forecast solid margins that will remain almost unchanged moving into 2025.
- Natural catastrophes in Europe, mainly cloudbursts and floods, have led to higher insured losses, although they remain within the natural-catastrophe and large-loss budgets of most primary insurers we rate.
- Although top-line growth in excess of premium rate adjustments is muted due to subdued GDP growth in many European regions, interest in insurance cover could increase in response to the natural catastrophes.

European Insurers' Capital Surplus | A Key Rating Strength

Capital surplus (bil. €)



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

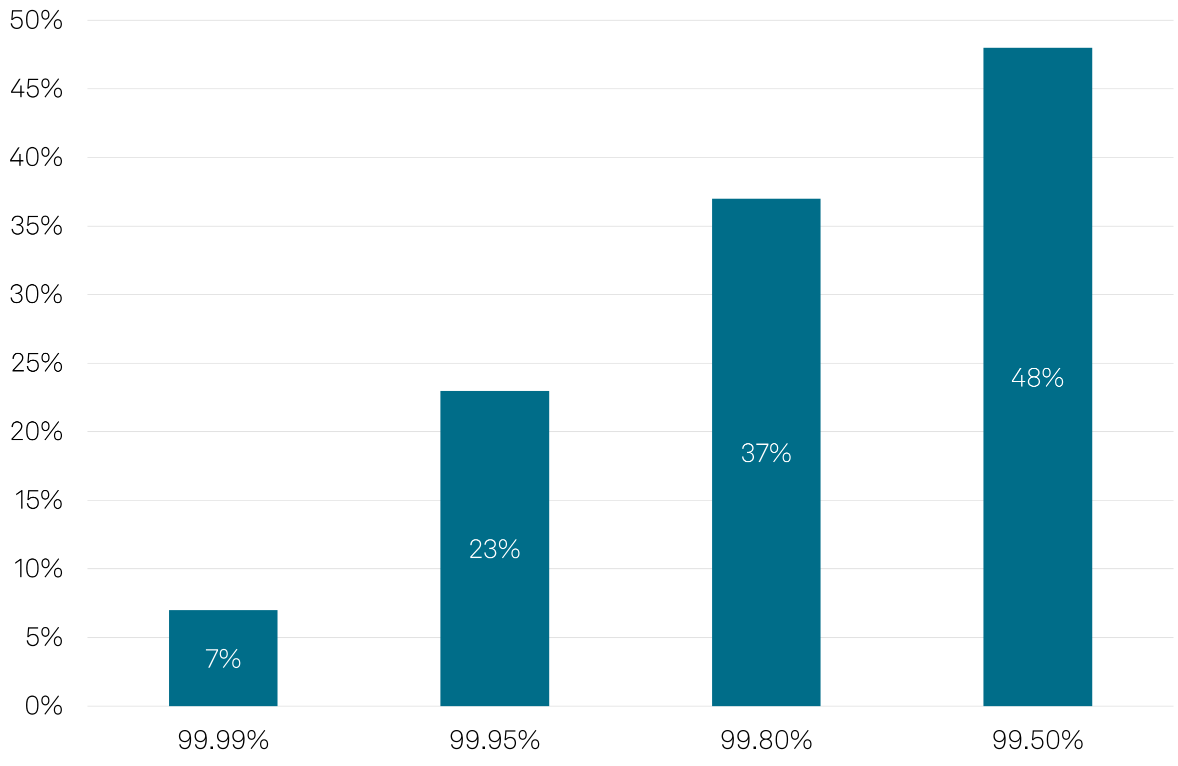
- The capital surplus on top of the minimum capital adequacy necessary to maintain the current ratings remains a key strength for European insurers.
- Following the steep interest rate increase in 2022, the introduction of IFRS 17 in early 2023 shed more of an economic light on insurers' balance sheets. We refreshed our risk-based capital model at the end of 2023.
- The pull-to-par effect in non-life insurance invested assets contributed to the capital surplus in 2023.
- This has led to more positive than negative rating actions so far in 2024.
- However, listed European insurers have maintained progressive dividend policies and have continued shareholder-friendly share buybacks.
- We have observed only very limited impairments on illiquid assets in 2024, for example, real estate. We see this as confirmation of European insurers' cautious investment risk appetite.

European Insurers' Capital Adequacy | Exceeding 99.99%

- According to our risk-based capital model, the European insurers we rate display material capital redundancy at all confidence levels.
- Against this broad average across European regions and diverse insurance and reinsurance groups, the 7% redundancy at the highest confidence level of 99.99% stands out.
- This is stronger than our assessment last year, when the aggregated capital model redundancies by confidence level exceeded the 99.95% level, but not the 99.99% level.

Note: Redundancy by confidence level is not the same as the capital surplus, as the latter refers to the confidence level required for each and every rating, but the redundancy percentage reflects all capital models, despite the different levels of capital required in each specific case.

Capital redundancy by confidence level

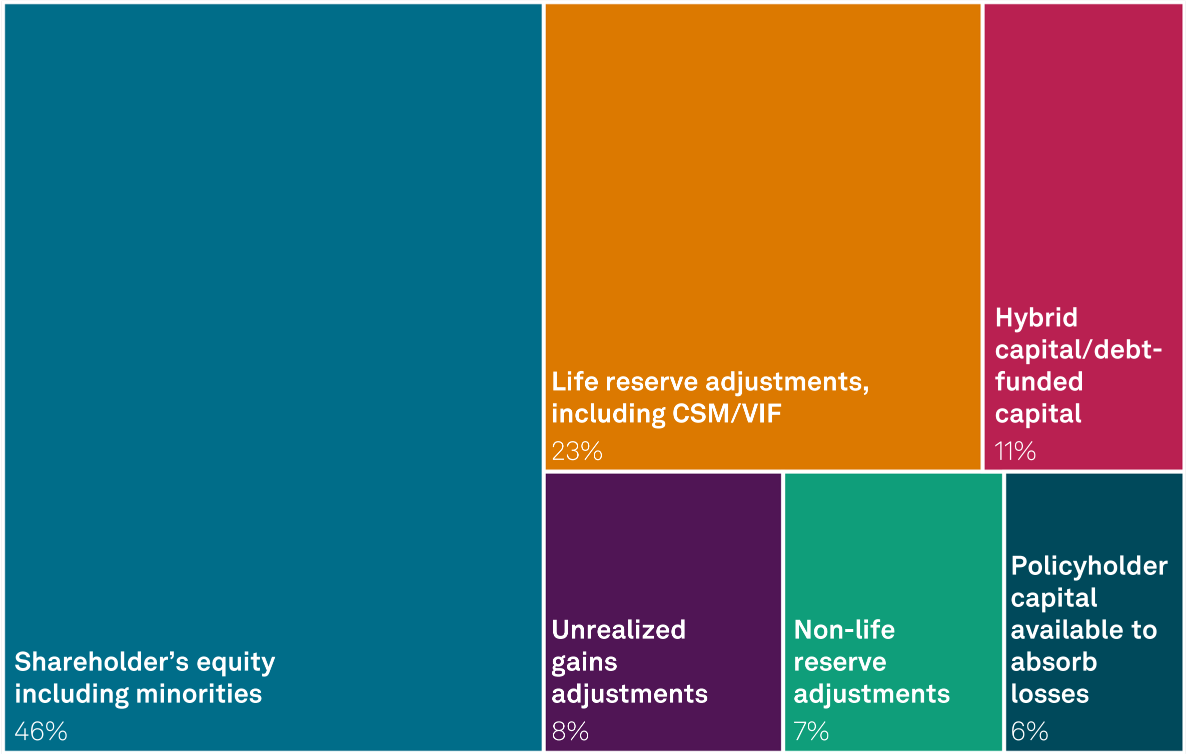


Source: S&P Global Ratings.

European Insurers' Capital Quality | The Effects Of IFRS 17 Are Kicking In

- Our analysis of European insurers' aggregate total adjusted capital reveals a high quality of capital that is unchanged from 2023.
- On average, just less than half of total adjusted capital consists of shareholders' equity including minorities.
- We include the IFRS 17 contractual service margin and risk adjustment, and for non-IFRS life embedded value, the value in force, in our view of capital.
- One of the benefits of IFRS 17 is that it provides a more economic view of insurers' balance sheets.
- We note that European insurers have a favorable funding environment, and that a healthy level of capitalization does not require higher leverage.
- On the contrary, we see European insurers not making full use of their hybrid debt allowance, or even reducing leverage, thanks to their robust capital adequacy as measured by our risk-based capital model and Solvency II.

Components of total adjusted capital



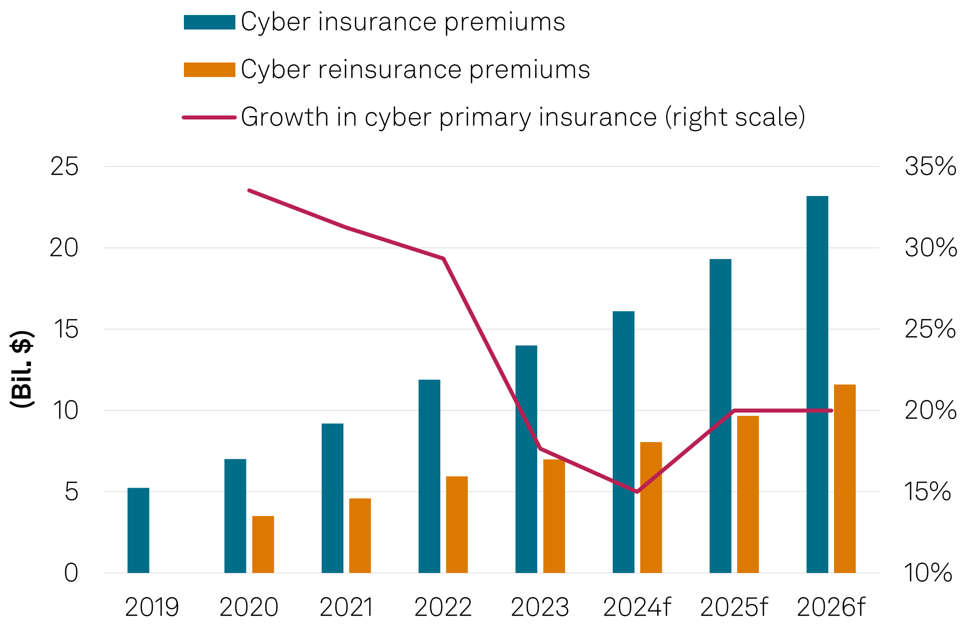
CSM--Contractual service margin. VIF--Value in force. Source: S&P Global Ratings.

Cyber | From Threat To Opportunity

The cyber insurance markets have seen more competition and softening conditions in 2023 and 2024. Annual premiums reached about $14 billion at year-end 2023 and are likely to increase by 15%-20% per year to reach about $23 billion by 2026. Growth in cyber insurance will depend heavily on reinsurance to provide capital and manage accumulation risk.

Cyber insurance remains on a fast track

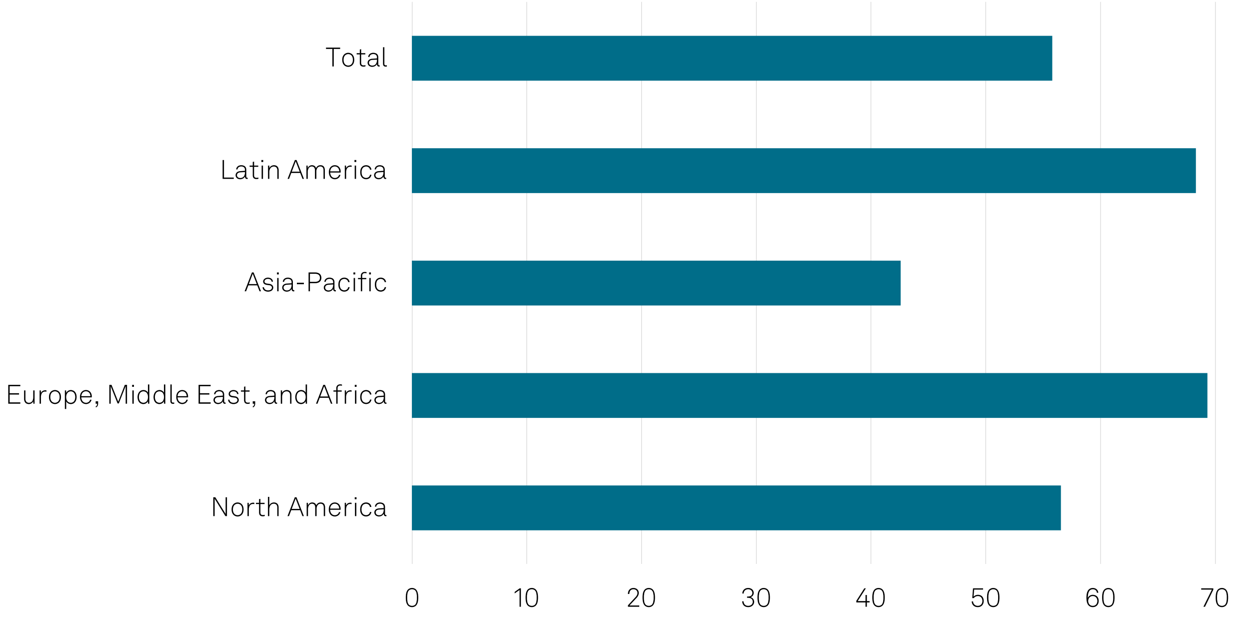
Global cyber (re)insurance premium



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

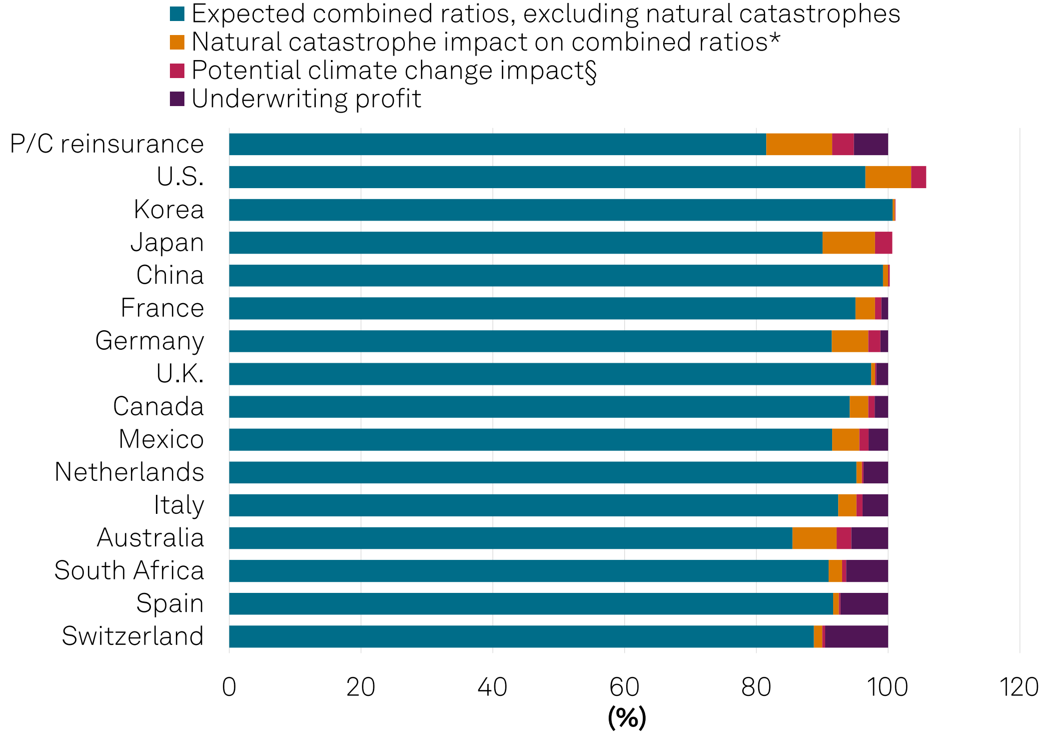
Primary insurers utilize a significant amount of reinsurance capacity

Reinsurance utilization (%): primary cyber insurance segment (2023)



Climate Change And Climate Transition | Premium Rate Adjustments To Continue

European P/C can absorb an increase in natural catastrophe claims



*Natural catastrophe impact estimate based on the historical average (typically 10 years) of gross loss contributions to gross written premiums. §Assuming a 33% increase in natural catastrophe impact. Combined ratio--The insurance industry's main profitability ratio, which compares revenues from premiums with losses and expenses; a ratio below 100% indicates an underwriting profit. P/C--Property/casualty. Sources: Swiss Re, NatCatService (Spain), GDV (Germany), Ministry of the Interior and Safety of South Korea, S&P Global Ratings.

- For most rated primary insurers, a climate change-induced rise in claims costs is unlikely to lead to negative rating actions over the medium term, even if profitability becomes more volatile.
- An increase in insured losses could increase reinsurance costs and reduce underwriting margins at industry levels.
- However, insurers' ability to take underwriting actions or reduce exposure, as well as what we expect to be the long-term availability of reinsurance, will likely mitigate some of the risks.
- We do not expect that insurers will materially reduce their natural catastrophe risk coverage on a systemic basis.
- Yet private-public partnerships will likely need to strengthen to address the increase in the cost and availability of insurance coverage.
- Other climate transition risk may emerge in insurers' investments, and European insurers are putting a lot of effort into managing this risk against the backdrop of the EU taxonomy and Corporate Sustainability Reporting Directive.

Regulation And Accounting | Gaining Ground

The Council of the EU approved updates to the Solvency II directive, including the IRRD November 2024	This could bring insurers up to €80 billion in capital relief by 2027, subject to final implementation in 2025. The proposed IRRD might not have any direct impact on the ratings.
Solvency II U.K. 2024	The reforms are unlikely to materially affect the creditworthiness of rated insurers in the U.K. because we anticipate that their capital and business positions will be largely unaffected. IRRD amendments have no impact on the ratings.
Swiss regulatory update including the IRRD 2023	The Swiss solvency test intervention level has increased from 80% to 100%. The IRRD has no direct impact on the ratings.
IFRS 17 implementation 2023	The move to a principles-based standard that offers far more options could impede comparability between the reported results under different accounting standards, and even between reinsurers that have made different choices under IFRS 17.

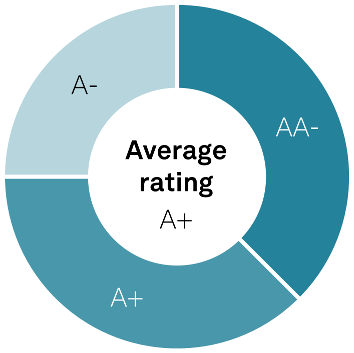
IRRD--Insurance Recovery And Resolution Directive.

Overview

Selected European Markets

U.K. Life
Higher Interest Rates Boost Pension Risk Transfer Volumes

Rating distribution



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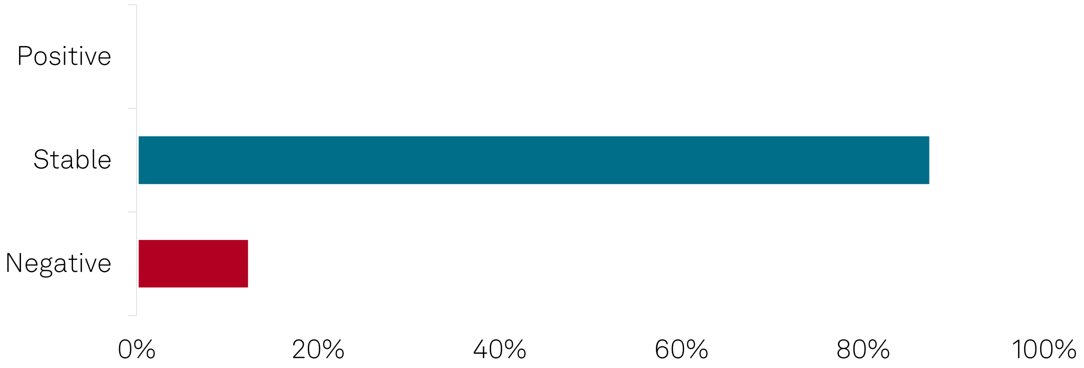


Key credit factors: Tailwinds

- Higher interest rates have driven a significant rise in bulk-purchase annuity volumes.
- Solvency reforms have improved regulatory capital positions.
- Individual annuities are seeing strong sales.

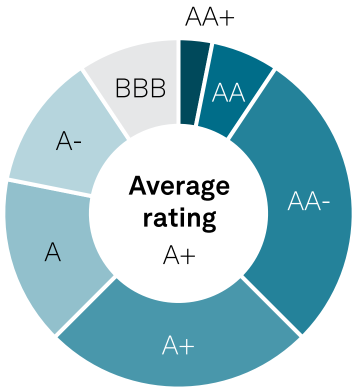
Key credit factors: Headwinds

- Cost-of-living issues have slowed net inflows in asset management.
- Regulatory reviews and potential pension reforms bring uncertainty.
- The equity-release mortgage market has seen volumes drop significantly.

U.K. P/C

Improved Conditions In Retail Lines Bring Respite For Non-Life Insurers

Rating distribution



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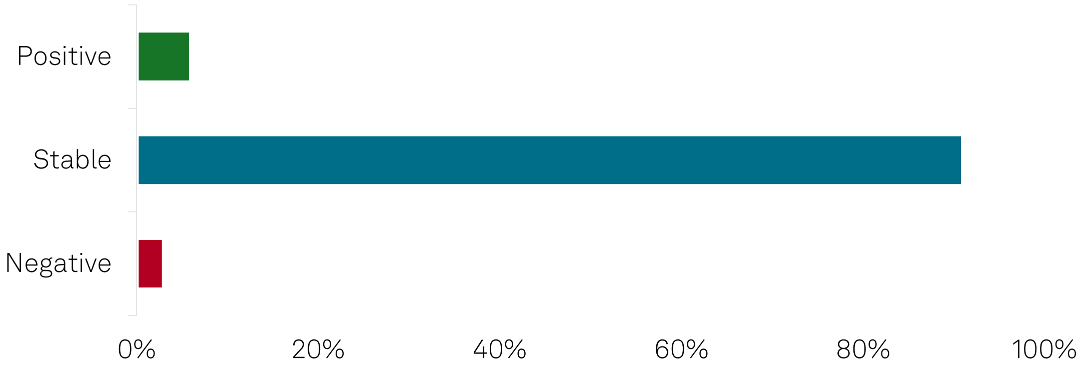


Key credit factors: Tailwinds

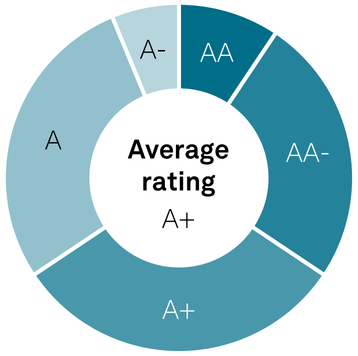
- Motor pricing actions in 2023-2024 are starting to have a positive effect on earnings.
- Home insurance pricing is now hardening.
- Higher interest rates are improving investment results.

Key credit factors: Headwinds

- Commercial lines pricing is softening.
- Conduct regulation remains challenging.
- Higher reinsurance costs have meant that the primary market has had to accept more volatility.

French Insurance Market
Business Growth Is Accelerating Despite Political Uncertainty

Rating distribution



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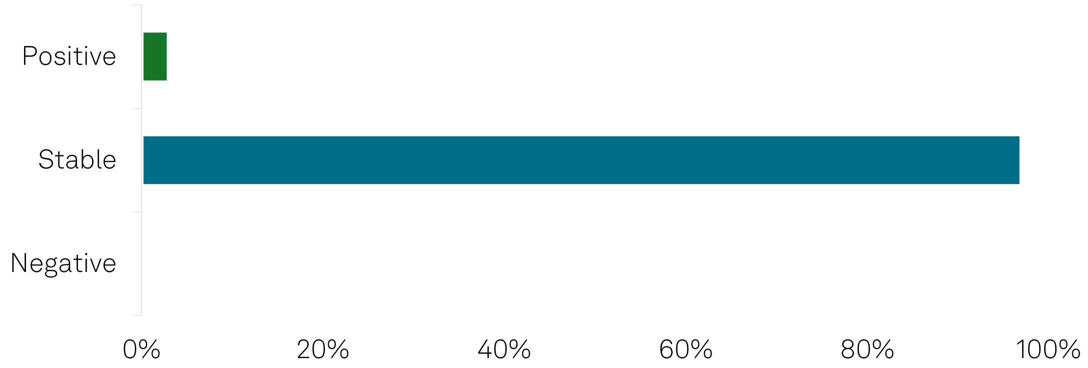


Key credit factors: Tailwinds

- Strong life premium growth for both unit-linked (UL) and Euro contracts (+15% YTD September 2024, with +9% for UL and +18% for Euro contracts).
- Further acceleration of tariffs in retail auto and home insurance, with premiums up 6% in the first half of 2024.
- Caisse Centrale de Réassurance's (CCR's) public scheme has helped reduce the financial impact of natural catastrophes.

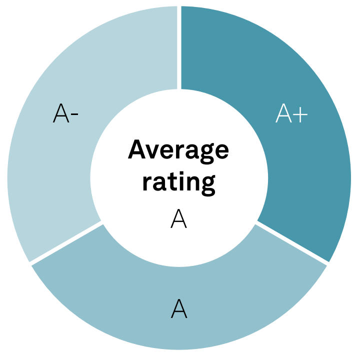
Key credit factors: Headwinds

- Rising reinsurance costs for perils are not covered by CCR (windstorms).
- Retail P/C activity still suffers from competitive pressure, limiting the pace of tariff increases, as well as from the impact of inflation on past claims.
- Life insurers could continue to use part of their policyholder surplus reserves to enhance yields, which would drag slightly on capital adequacy.

Italian Insurance Market

Strong Profitability In P/C, Gradual Improvement In Life

Rating distribution



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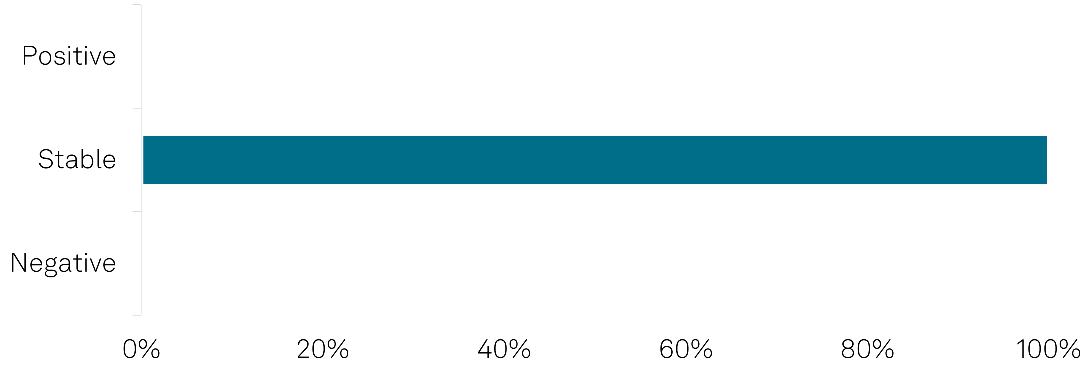


Key credit factors: Tailwinds

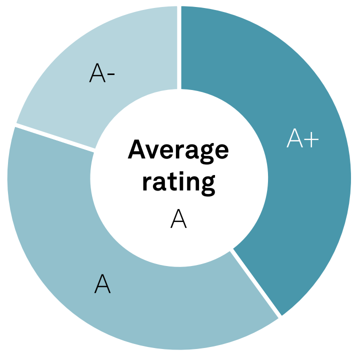
- Strong recovery in life premiums for both unit-linked (UL) and guaranteed contracts (+22% YTD August 2024, with +47% for UL and +14% for guaranteed contracts), after suffering heavy competition from government-issued retail products in Italy in 2023.
- Acceleration of tariffs in motor and home and buildings insurance, with premiums up over 10% in the first half of 2024.
- A widening revenue base, with the Italian government mandating natural catastrophe cover for corporates from January 2025.

Key credit factors: Headwinds

- High surrender rates on guaranteed life insurance products (10% of reserves in the first half of 2024) as a lack of fiscal benefits and limited policyholder surplus reserves weigh on the relative attractiveness of life insurance.
- Life insurance profitability is also under pressure from commercial incentives to limit surrenders.
- The motor insurance combined ratio is only recovering gradually from the impact of past claims inflation.

Spanish Insurance Market
Flash Floods Covered By The CCS

Rating distribution



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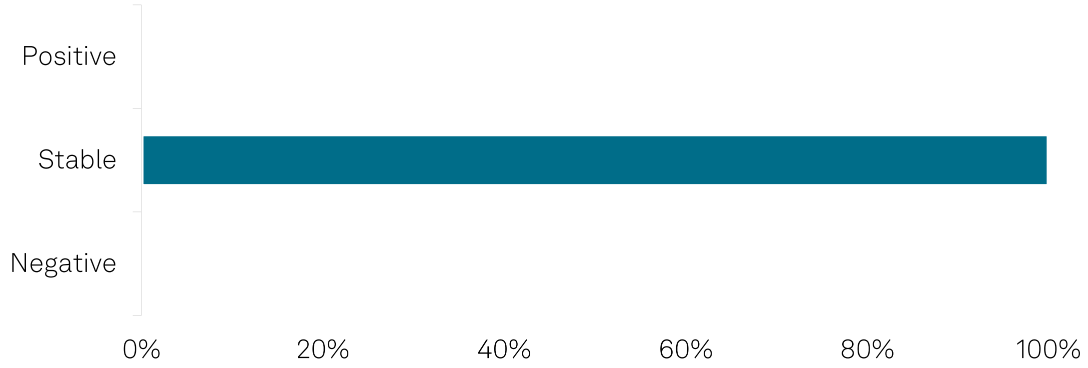


Key credit factors: Tailwinds

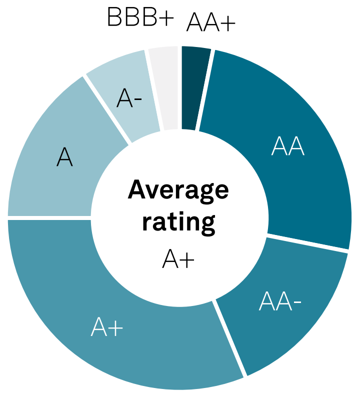
- Positive momentum in the commercialization of life products, supported by current interest rates, with sales up 36.3% versus 2022.
- Lower sensitivities to interest rate fluctuations thanks to cash flow or duration matching.
- Strong profitability of the P/C sector, with a combined ratio of 94.6%.
- Protection from primary natural perils by the government-sponsored Insurance Compensation Consortium (Consorcio de Compensación de Seguros or CCS).

Key credit factors: Headwinds

- The motor business' weak profitability, with a combined ratio of 101.7% due to the impact of inflation on claims and a lag in tariff adjustments.
- Exposure to heightened frequency of secondary natural perils, which the CCS does not cover.
- A less developed life market than in other major European economies, with life reserves on savings only totaling €208 billion in the first half of 2024.

German Insurance Market
Resilient Ratings

Rating distribution



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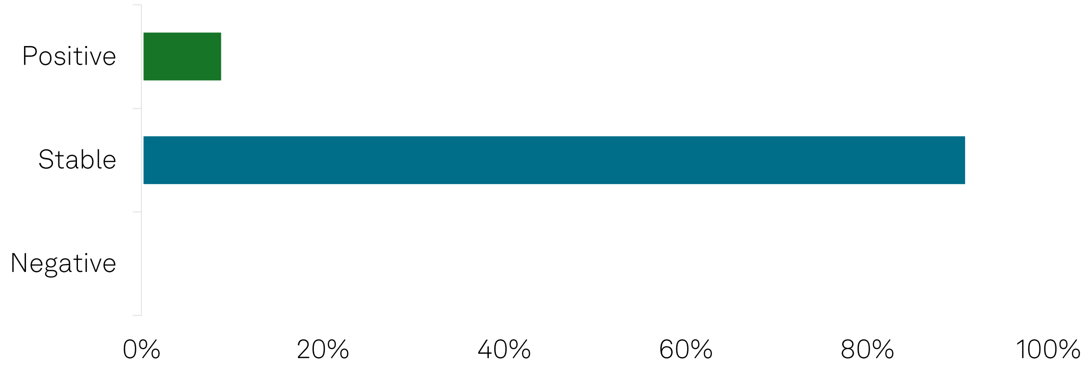

Key credit factors: Tailwinds

- Higher interest rates have benefited German life insurers' solvency positions and reinvestment yields.
- Liquidity risk from unrealized losses in the bond portfolios remains well contained for rated German life insurers amid stable and low lapse rates, product features, releases from the Zinszusatzreserve reserve, and shifting business mixes.

Key credit factors: Headwinds

- Claims inflation, significant natural catastrophe losses, and higher reinsurance costs weigh on non-life performance.
- Technical losses in motor insurance reflect fierce competition and our assumption of claims inflation in 2023 and 2024.
- Life premiums have declined because of reduced consumer spending power in private households and higher competition.

Netherlands Insurance Market
Improving Profitability

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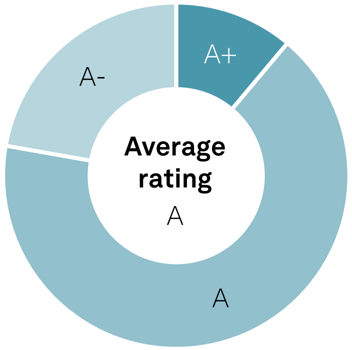

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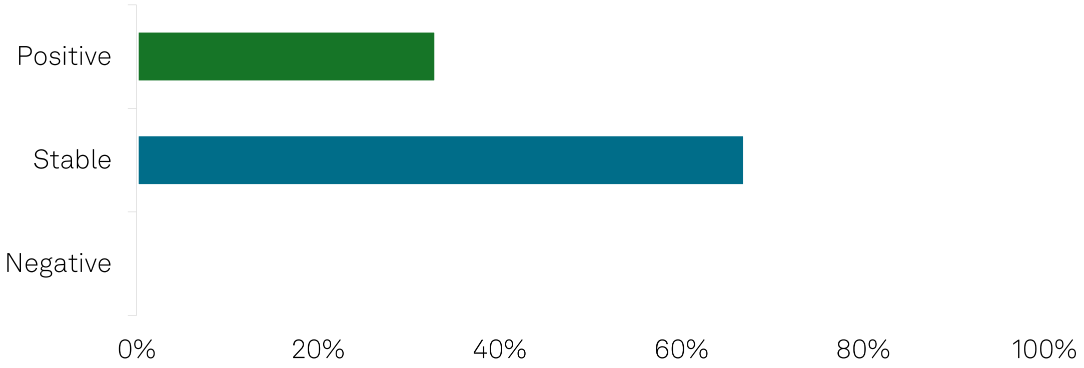


Key credit factors: Tailwinds

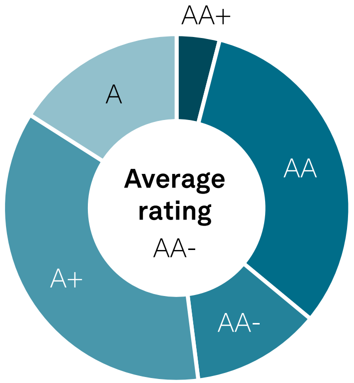
- Rated insurers' stronger capital.
- Large players' enhanced diversification.
- Improved technical profitability in non-life.
- Resolution of misselling issues relating to unit-linked policies from the 1990s.

Key credit factors: Headwinds

- The market is self-contained and saturated.
- Growth potential is limited due to the sluggish macroeconomic environment.
- Profitability, while improved, remains muted.
- Life premiums could decline due to competition from other financial products.

Swiss Insurance Market
Resilient Capital And Earnings

Rating distribution



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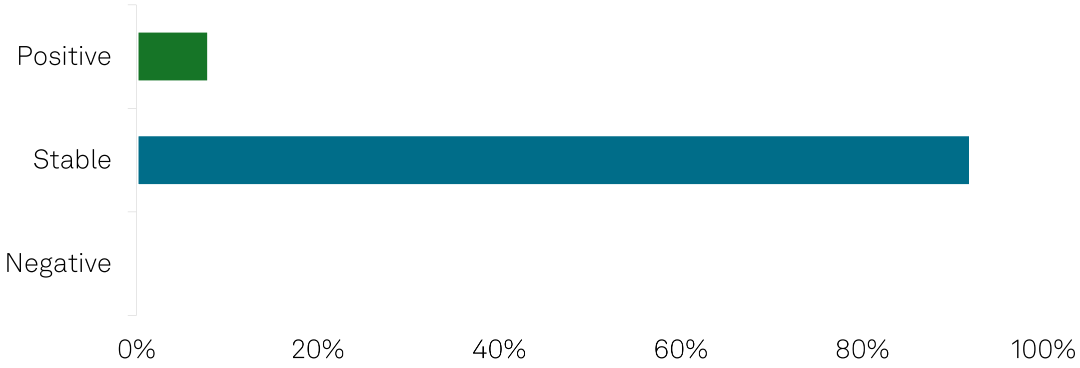


Key credit factors: Tailwinds

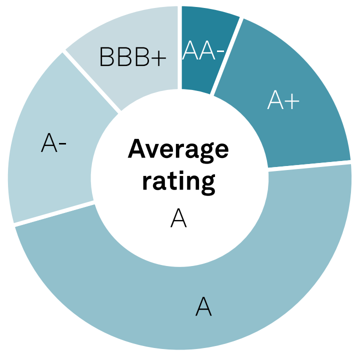
- Concentrated insurance market, with strong performance in life and P/C.
- Effective loss prevention, particularly for flood risk.
- Strong and resilient capitalization.

Key credit factors: Headwinds

- Natural catastrophe exposure.
- Our expectation of limited premium growth in the life market.
- Low capital base.
- High exposure to real estate assets compared to other markets.

Nordics Insurance Markets
Technical Excellence With Solid And Resilient Capitalization

Rating distribution



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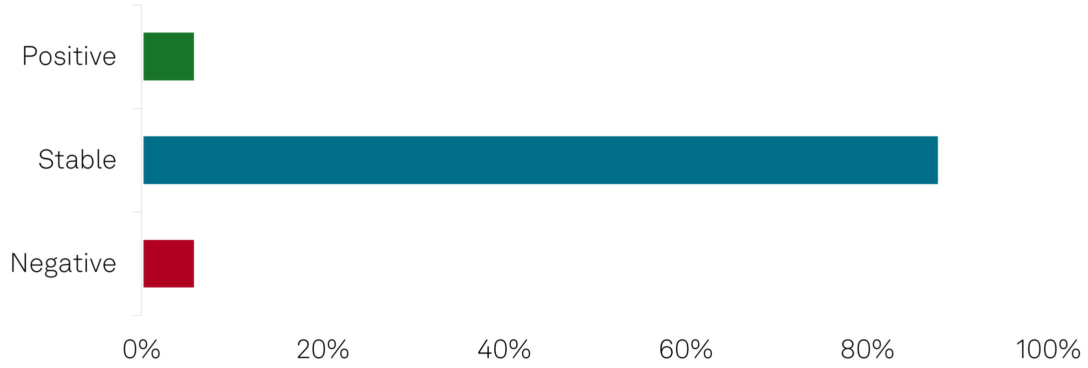

Key credit factors: Tailwinds

- Underwriting is disciplined and non-life profitability strong.
- Life insurers are shifting business to capital-light products.
- Investment portfolios benefit from a capital market recovery.
- Most rated insurers saw capital strengthen in 2023 and the first half of 2024.

Key credit factors: Headwinds

- Sluggish real economic growth may reduce growth potential in the short term.
- Seasonal weather and inflation hampered technical profitability in the first half of 2024.
- Relatively high market risk due to equity exposure is causing earnings volatility.
- Many rated insurers have a narrow geographical and sectoral footprint.

Related Research

- Credit Conditions Europe Q4 2024 Turn In Credit Cycle Won't Be Plain Sailing, Sept. 25, 2024
- Sustainability Insights: Insurers Focus On Underwriting To Tackle Climate Risk, Sept. 10, 2024
- Assessing Europe's Global Reinsurers Under IFRS 17, July 2, 2024
- Solvency II Update Offers EU Insurers €80 Billion In Capital Relief, June 10, 2024
- Quarterly Cyber Focus: A More Balanced Insurance Market And Cyber Risk Pools, May 9, 2024
- Risks For The EMEA Insurance Industry From The Iran-Israel Conflict Remain, April 17, 2024
- EMEA Insurance Outlook 2024: Navigating the way home, Nov. 21, 2023
- Global Cyber Insurance: Reinsurance Remains Key To Growth, Aug. 29, 2023

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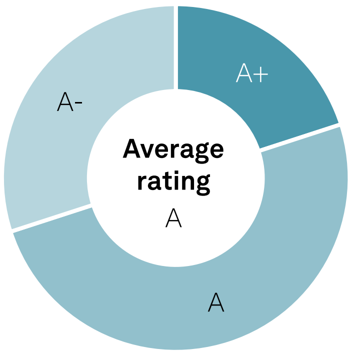
Appendix

Overview Of Selected Middle East And African Markets

Central and Eastern Europe (CEE)
Growth Continues On Higher Demand

Rating distribution



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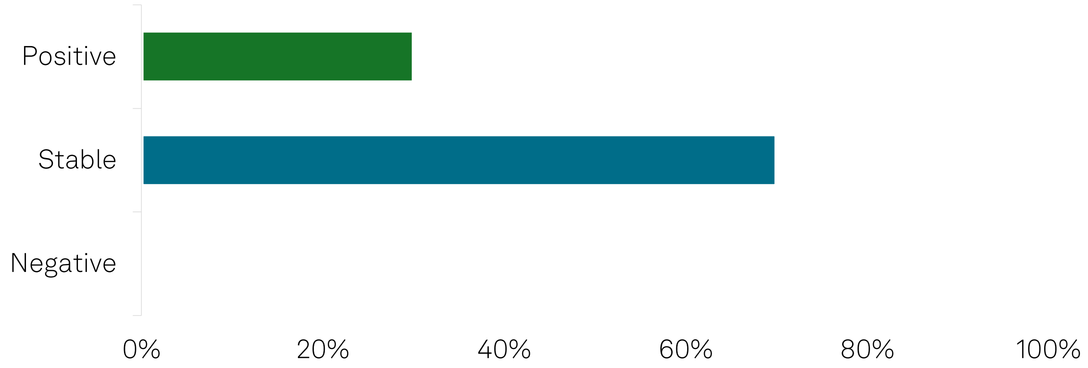


Key credit factors: Tailwinds

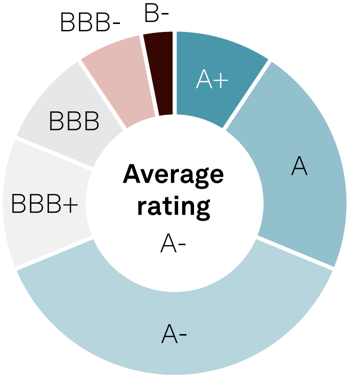
- Ongoing economic and population growth.
- Higher demand.
- Higher pricing.

Key credit factors: Headwinds

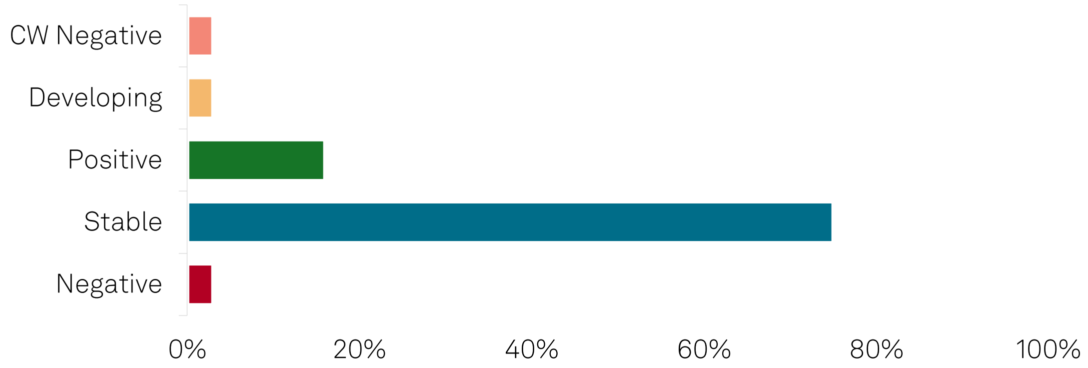
- Higher competition.
- Geopolitical risk.
- Low capital base.

Gulf Cooperation Council
Growth Continues On Higher Demand

Rating distribution



Outlook distribution



Key credit factors: Tailwinds

- Ongoing economic and population growth.
- Higher demand.
- Higher pricing.

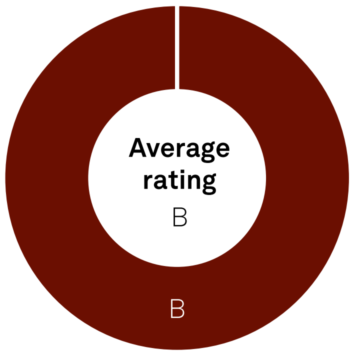
Key credit factors: Headwinds

- Higher competition.
- Geopolitical risk.
- Low capital base.

Turkiye

Insurers Remain Resilient While Navigating Volatility

Rating distribution



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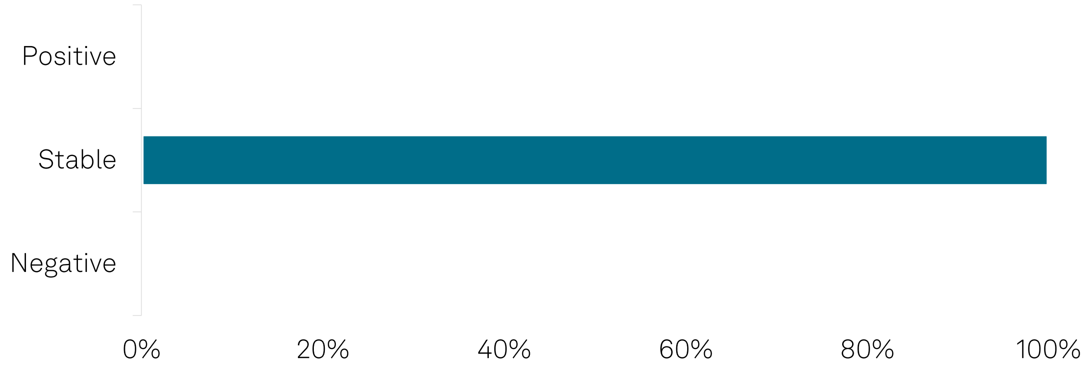


Key credit factors: Tailwinds

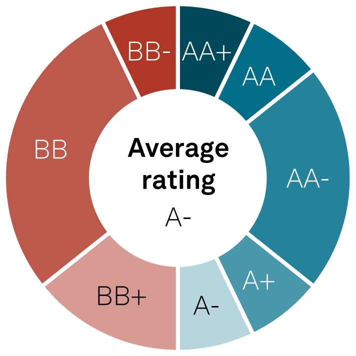
- Growth will outpace inflation and real GDP growth rates.
- Strong investment income due to high interest rates supports overall profitability.

Key credit factors: Headwinds

- Although improving, underwriting performance remains loss-making, mainly driven by motor third-party liability insurance.
- Exposure to natural catastrophes.
- Foreign-exchange risks and the devaluation of the Turkish lira.

South Africa
Resilient Capitalization

Rating distribution



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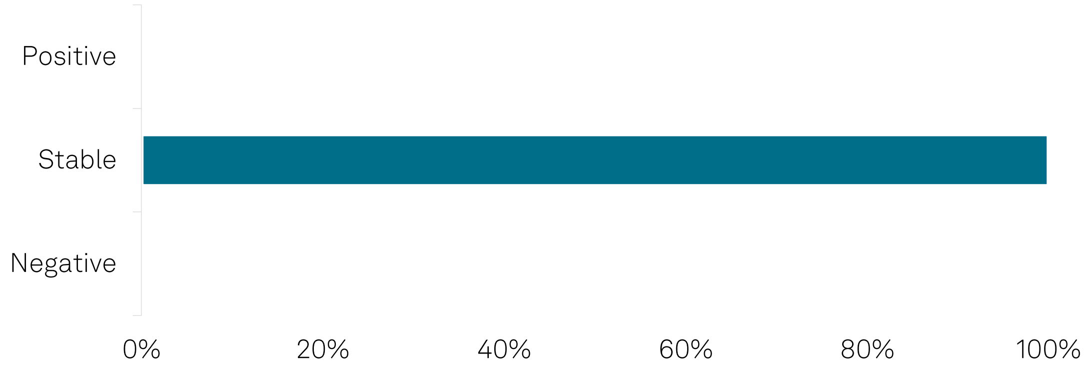


Key credit factors: Tailwinds

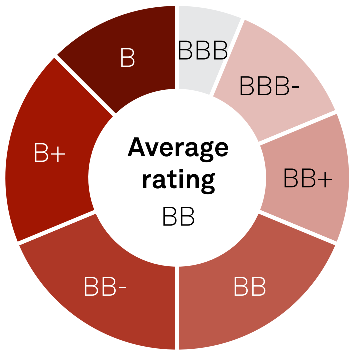
- Rate increases will drive premium growth in the P/C sector.
- High interest rates will support investment income for P/C players.
- The institutional framework and capitalization are both strong.

Key credit factors: Headwinds

- Increase in weather-related events.
- Reinsurance price increases.
- Volatile capital markets, which may affect profitability in the life sector.
- Muted premium growth in the life sector.

Azerbaijan, Kazakhstan, And Uzbekistan
Growth Continues Due To Higher Demand

Rating distribution



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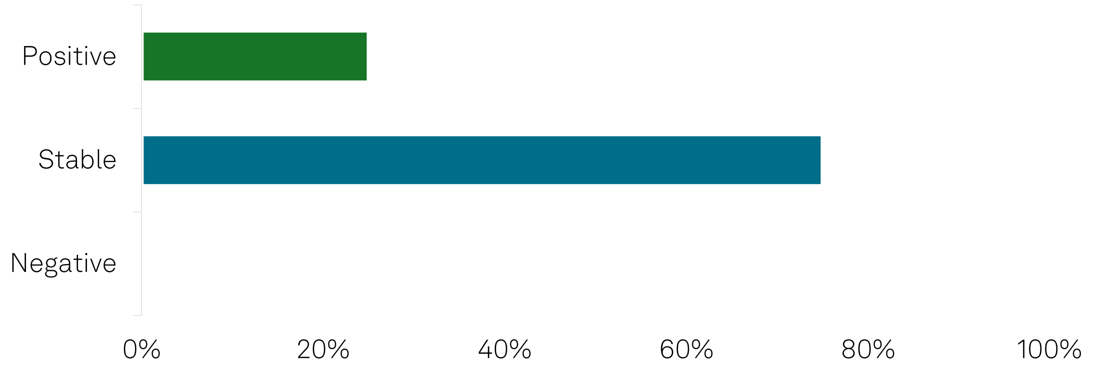

Key credit factors: Tailwinds

- Ongoing economic and population growth.
- Higher demand.
- Higher pricing.

Key credit factors: Headwinds

- Higher competition.
- Geopolitical risk.
- Low capital base in absolute terms.

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