

EMEA Insurance Outlook 2021

Choppy Waters Ahead

Volker Kudszus

Senior Director

Sector Lead Insurance Ratings

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S&P Global
Ratings

EMEA Insurers | COVID-19 Remains A Threat



While we estimate COVID-19-related market stresses could have initially wiped out up to 85% of the EMEA insurance industry's capital buffer, capital market recovery has subsequently helped restore it sufficiently to support ratings into 2021/2022.



However, the pandemic has had an impact on 38% of ratings and outlooks in the EMEA corporate sector this year, with asset stresses, particularly equity stresses, remaining a key rating risk for insurers.



We expect global reinsurers and global multiline insurers' industrial lines will see the most COVID-19-related claims, likely totaling €30 billion-€43 billion. However, such claims are not a sole rating driver.



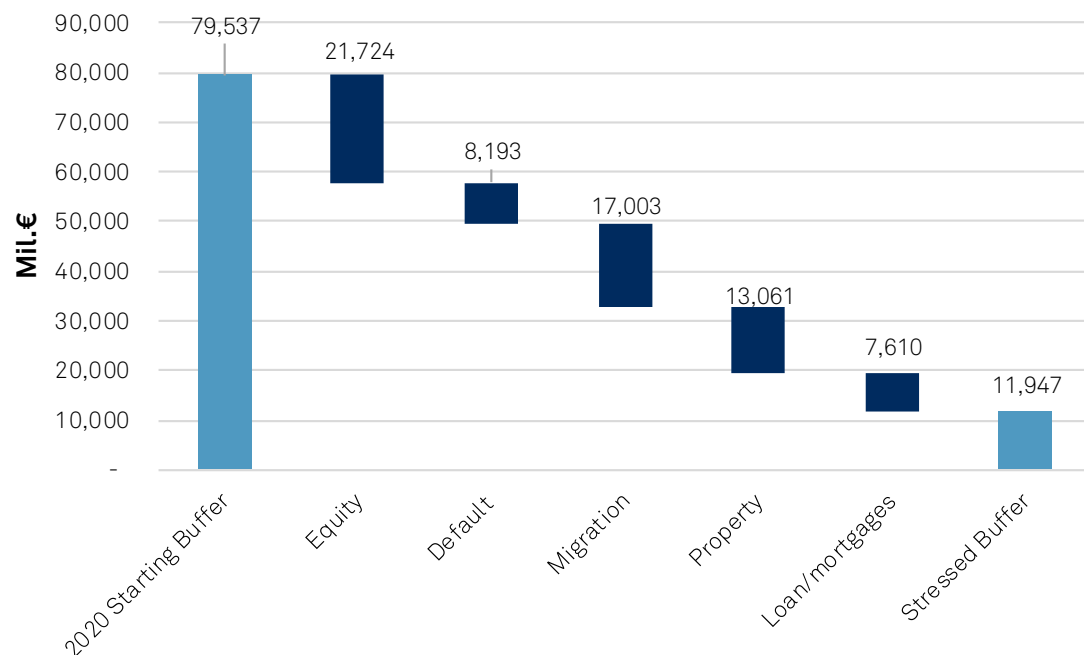
COVID-19-related risks to economies and capital markets, including potential downward migration of ratings on corporate bonds, could have an impact on insurer capital and ratings in 2021.

Data as of June 30, 2020. Rating actions include downgrades, outlook changes and CreditWatch placements.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Capital Buffers | No Longer On A Knife Edge

Capital Market Recovery Is Yet To Fully Reverse The Negative Impact Of Equity Investments And Corporate Rating Migration On Buffers

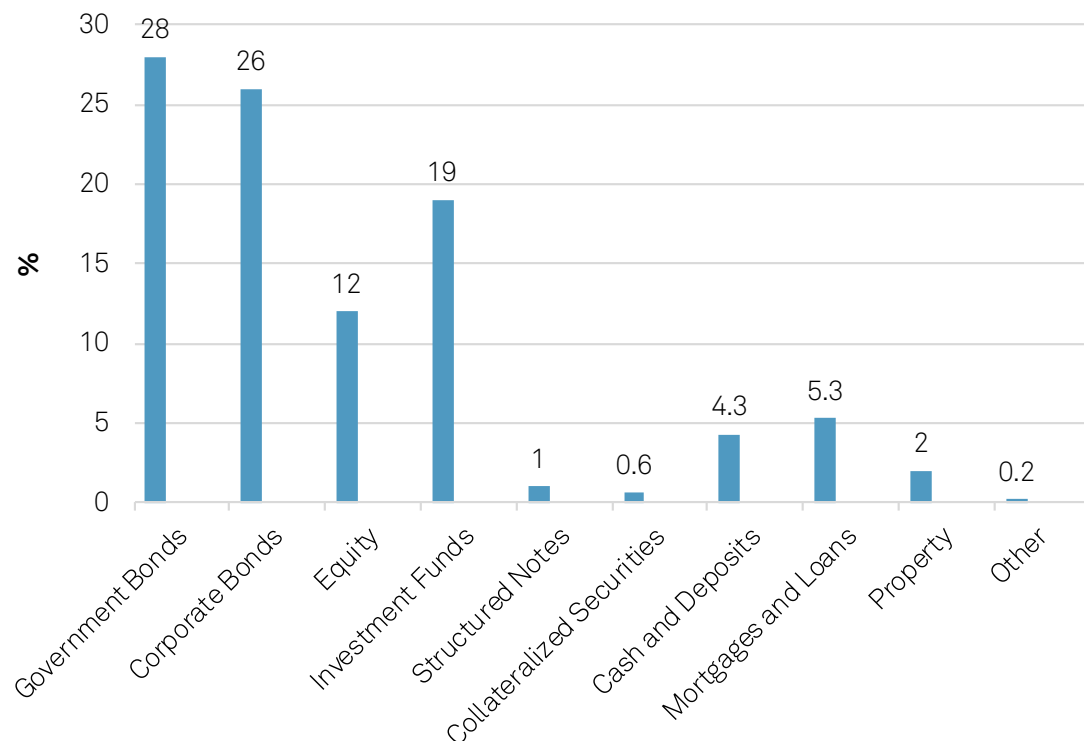


- EMEA insurers' capital buffer is 85% less under our combined stress scenario.
- Equity risk is most significant (27%), and corporate bond rating migration and default risk are sizable (21%, 10%).
- A rebound in equity and debt markets recovered much of the previously lost buffer.
- We expect a capital rebuild in 2021/2022 based on an expected strong economic recovery.

Source: S&P Global Ratings.

Insurers' Investments | Prudent, But Not Risk Free

European Economic Area Insurers' Asset Allocation

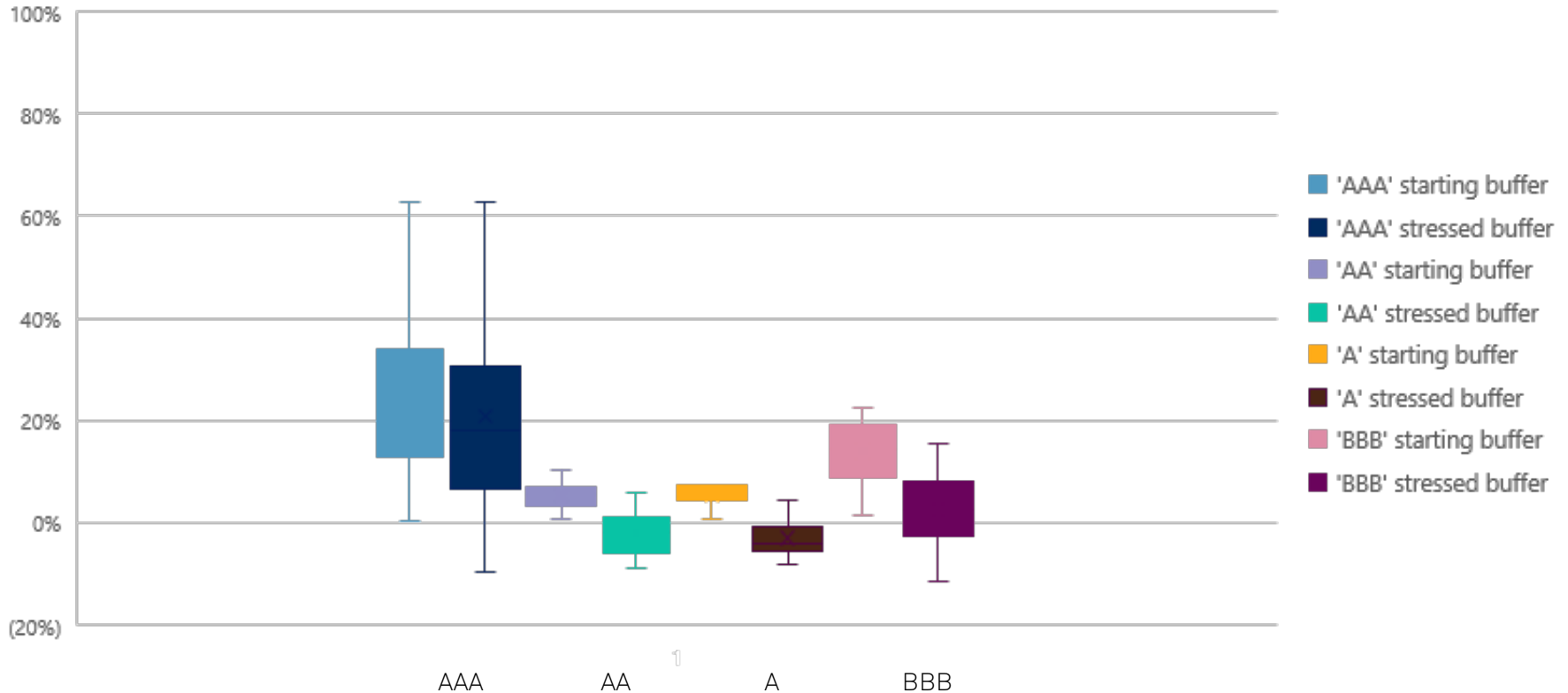


Source: European Insurance and Occupational Pensions Authority insurance overview 2020.

- Fuelled by lower interest rates, insurers are now more invested in equity and corporate bonds.
- The majority of invested assets are investment grade (1.4% in 'BB' range, 4.4% not rated).
- 'BBB' corporate bonds (totalling about €140 billion) will likely migrate to 'BB' or weaker.
- Credit risk (default and migration) and equity market risk outweigh risks from insurance claims.

Capital Buffers | Expected To Recover

On Top Of Capital Market Recovery, 2021/2022 Earnings Will Further Restore Buffers



Source: S&P Global Ratings.

Key Risks | Asset Risk Still Top, But Claims Rising

Risk Factor	Descriptor	Risk trend	What could change?	EMEA
Asset risk	Drop in value of insurers' invested assets as a result of financial market volatility, including equity market moves, spread movements, or rating migrations. EIOPA's* Financial Stability Report in July 2020 estimated a drop in invested asset value of about €678 billion.	Unchanged	New outbreaks that prolong measures such as lockdown, or an ineffective policy response, could increase market volatility and trigger more downgrades in the corporate, bank, and sovereign sectors.	Elevated
Insurance claims	Insured losses associated with the pandemic and economic disruption. Business interruption, event cancellation, travel, credit and surety, and mortgage lines are most exposed. Excess mortality is the key insurance risk for life insurers. We estimate global COVID-19-related claims at €30 billion-€43 billion.	Slightly increasing	Although business interruption losses could rise if insurers face legal action, we see retroactive legislative or regulatory changes as unlikely. The pandemic could also increase directors and officers or professional liability claims. Annual renewals in nonlife will limit reoccurrence of 2020 claims. Excess mortality due to COVID-19 and other preventable deaths could erode life insurers' capital positions.	Moderate
Insurance top line	Lockdowns hit the top line in 2020, and could potentially do so again in 2021. The recession could have longer-term implications for demand, particularly for discretionary lines.	Unchanged	If the economic recovery were disrupted or long lockdowns returned, insurers' top line in 2021 would face more-significant and longer-term consequences.	Moderate
Financing conditions	Financial market volatility and investor uncertainty makes it difficult to issue new instruments.	Unchanged	Financial market disruptions that hit liquidity and significant widening of issuance spreads could hinder market access for new issuance or make refinancing difficult for insurers.	Low
Hybrid ratings	Volatility in regulatory solvency ratios could heighten deferral risk.	Unchanged	Despite financial market recovery, solvency deterioration crystalized with few insurers. Asset risks could put additional pressure on solvency ratios in 2021.	Moderate
Sovereign risk	Potential weakening of sovereign credit could constrain ratings on insurers and make operating conditions tougher.	Slightly increasing	Sovereign creditworthiness could weaken if ineffective policy responses eat into tax revenue, making debt service more difficult. Sovereign downgrades could weaken capital positions or trigger rating actions for exposed insurers. We note stable outlooks for most of the larger economies in EMEA.	Low

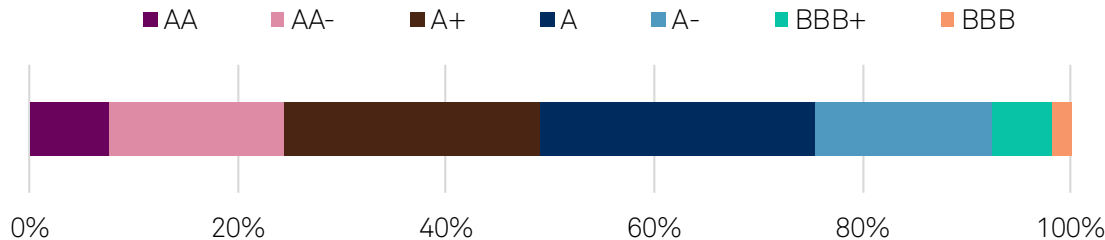
*European Insurance and Occupational Pensions Authority.

Sector Credit Overviews

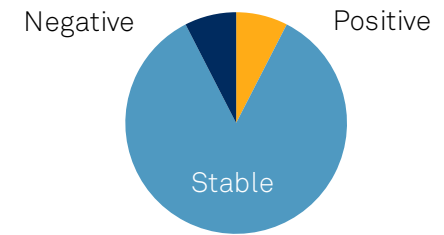
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European Life Insurers | Credit Overview

Ratings Distribution



Outlook Distribution



Our outlook for the EMEA life insurance sector is stable.

Key rating factors:

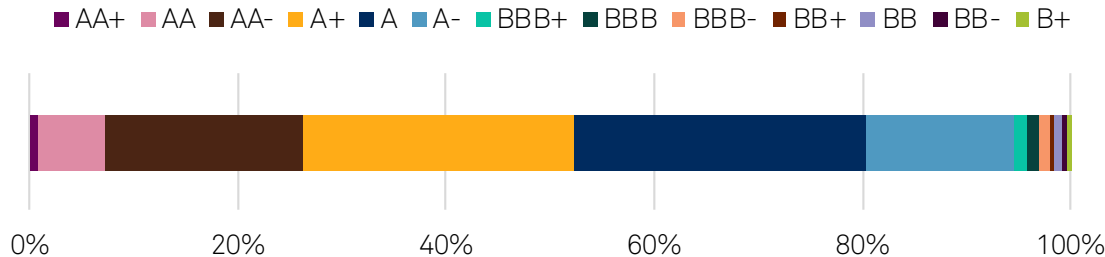
- High-quality asset allocation.
- Some capital buffers.
- Slow but steady shift to less-risky products with lower capital requirements.

Negative outlook triggers:

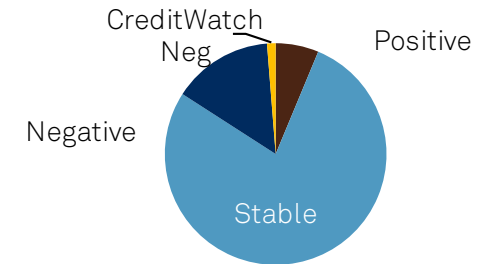
- Asset impairments hit unrealized investment gains.
- Heightened corporate defaults erode investment results.
- Corporate rating migration increases capital requirements.
- Low interest rates continue to squeeze investment margins and increase the cost of guarantees.

European Nonlife Insurers | Credit Overview

Ratings Distribution



Outlook Distribution



Our outlook for the EMEA nonlife insurance sector is stable.

Key rating factors:

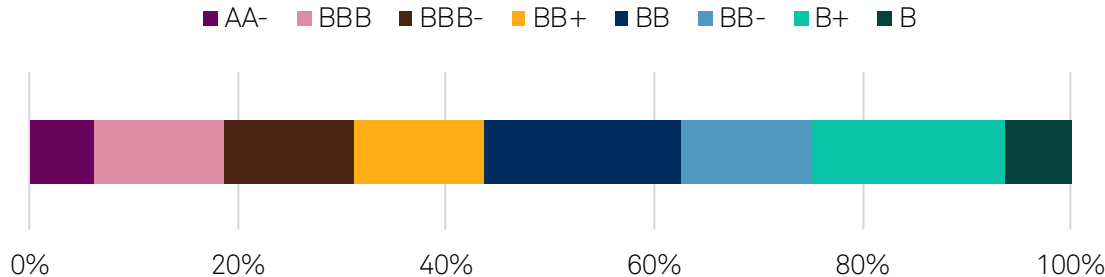
- Solid capital adequacy and prudent investment exposures.
- Well-diversified portfolios over products and regions.
- COVID-19-related claims limited to some industrial line writers and re-insurers.
- Ongoing strong technical profitability in many EMEA nonlife insurance markets.

Negative outlook triggers:

- Capital market volatility cuts into investment income.
- Strong technical profitability increases willingness to compete on price.
- Expected recession dampens gross written premiums.

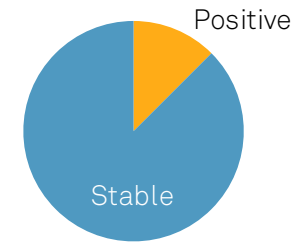
Russia And CIS | Credit Overview

Ratings Distribution*



* Ratings over 'BBB' range reflect the benefit of parental support.

Outlook Distribution



Our outlook for the insurance sector in the CIS is broadly stable.

Key rating factors:

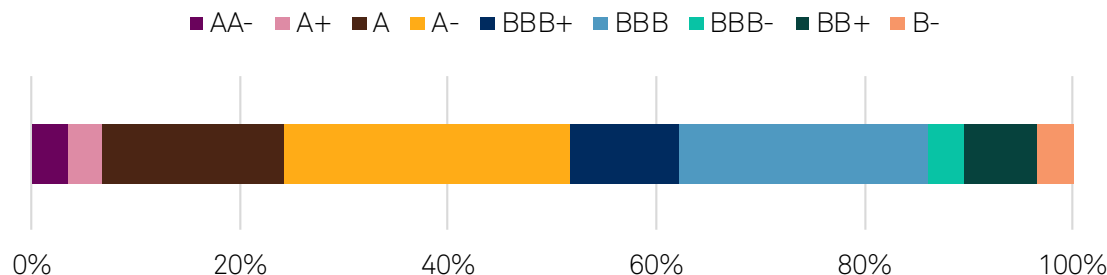
- Predominantly sufficient capitalization and good technical profitability, untouched by exposure to COVID-19-related claims.
- Generally positive investment income for most insurers on the back of local currency devaluation and generally long foreign currency positions.

Negative outlook triggers:

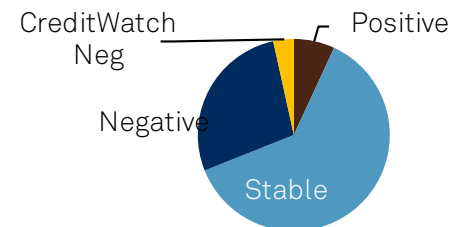
- Generally high country risks limits ratings, and weakening sovereign credit ratings pressure investment-grade companies and constrain insurers' investment portfolio quality given insurers' material exposure to local sovereign bonds.
- Pressure on ratings for local banks constrains the credit quality of insurers' investment portfolios given their high exposure to local banking systems.
- Weaker economic conditions constrain growth opportunities for insurers and pressure earning prospects.

Gulf Corporation Council (GCC) | Credit Overview

Ratings Distribution



Outlook Distribution*



*Includes a group with several subsidiaries with a negative outlook.

Our sector outlook for the insurance sector in the GCC is stable.

Key rating factors:

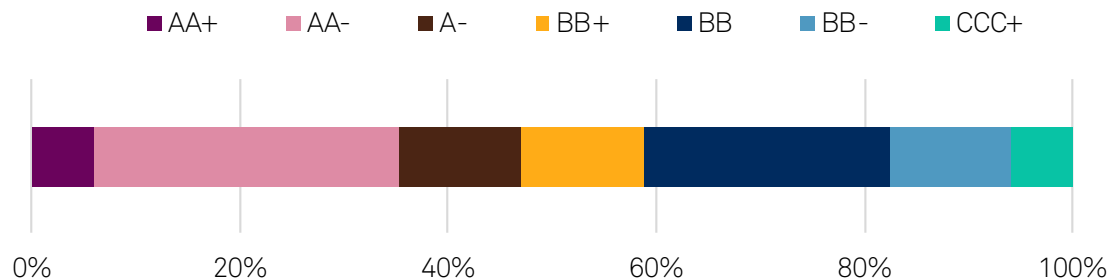
- Robust capital adequacy--about 80% of our rated insurers maintain capital adequacy above our 'AAA' benchmark.
- Ongoing strong technical profitability in many EMEA nonlife insurance markets.
- COVID-19-related claims limited to some industrial line writers.

Negative outlook triggers:

- Capital market volatility cuts into earnings and capital buffers because many insurers have significant exposure to equities.
- A slowdown in premium collections and increased bad debt provisions hit profitability and liquidity positions.
- Weaker economic conditions dampen gross written premium growth as competition intensifies.

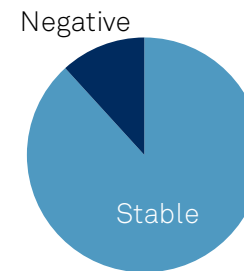
South Africa And Rest of Africa | Credit Overview

Ratings Distribution*



*Most ratings above 'BB' range reflect the benefit from parental support.

Outlook Distribution



Our outlook for the insurance sector within Africa is stable, reflecting already low ratings.

Key rating factors:

- Typically high economic and country risk, which constrains the ratings.
- Resilient and large capital buffers within the South African market, which make up a significant portion of premium coming from Africa. Rest-of-Africa entities usually have a small capital base and limited earnings.
- Some exposure to COVID-19-related claims, particularly in South Africa (notably business interruption and mortality), but this is unlikely to impact capital.
- Large players will continue to prospectively post good returns, thanks to scale.
- Low asset quality given most assets are held domestically.

Negative outlook triggers:

- More pressure on sovereign creditworthiness and, by extension, asset quality.
- Weaker economic conditions affect the broader growth environment and increase pressure on earnings.

Analytical Contacts

Volker Kudzusz

Frankfurt

+49-69-3399-9192

volker.kudzusz@spglobal.com

Simon Ashworth

London

+44-20-7176-7243

simon.ashworth@spglobal.com

Dennis Sugrue

London

+44-20-7176-7056

dennis.sugrue@spglobal.com

Tatiana Grineva

London

+44-20-7176-7061

tatiana.grineva@spglobal.com

Johannes Bender

Frankfurt

+49-69-3399-9196

johannes.bender@spglobal.com

Ali Karakuyu

London

+44-20-7176-7301

ali.karakuyu@spglobal.com

Victor Nikolskiy

Moscow

+7-495-7834010

victor.nikolskiy@spglobal.com

Mark Nicholson

London

+44-20-7176-7991

mark.nicholson@spglobal.com

Taos Fudji

Milan

+39-2-7211-1276

taos.fudji@spglobal.com

Emir Mujkic

Dubai

+971-4372-7179

emir.mujkic@spglobal.com

Trevor Barsdorf

Johannesburg

+27-11-214-4852

trevor.barsdorf@spglobal.com

Research Contributor

Rachit Cauhan

GAC

Related Research

- [S&P Global Ratings COVID-19 Research Page](#)
- [EMEA Insurance Monitor: November 2020](#), Nov 06, 2020
- [Global Debt Leverage: Risks Rise, But Near-Term Crisis Unlikely](#), Oct. 27, 2020
- [Ill-Prepared For Winter](#), Sept. 29, 2020
- [COVID-19 Highlights Global Insurance Protection Gap On Climate Change](#), Sep 28, 2020
- [Down But Not Out: Insurers' Capital Buffers Are Proving Resilient In The Face Of COVID-19](#), [Sep 22, 2020](#)
- [Black Swan Or Not, COVID-19 Is Disrupting Global Reinsurers' Profitability](#), [Sep 08, 2020](#)
- [Global Reinsurers Face Threat If COVID-19 Losses Are Followed By A Major Catastrophe](#), [Sep 08, 2020](#)
- [Credit FAQ: How Will IFRS17 Affect Our Assessment Of Insurers' Capitalization?](#), [Aug 11, 2020](#)
- [COVID-19 And Lower Oil Prices Could Accelerate Consolidation Among Saudi Arabian Insurers](#), June 29, 2020
- [Insurers' Debt Remains Attractive To Investors During COVID-19 Uncertainty](#), June 22, 2020
- [The European Speculative-Grade Corporate Default Rate Could Reach 8.5% By March 2021](#), June 8, 2020
- [European Insurers: Capitalization Appears Resilient Under Solvency II, Somewhat Less Under Our Capital Model](#), May 28, 2020
- [COVID-19's Economic Effects Cloud The Outlook For EMEA Insurers](#), May 18, 2020
- [Insurers' Dividend Pause Amid COVID-19 Concerns Likely Indicates Caution, Not Credit Risks](#), April 15, 2020

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