EMEA Insurance Outlook 2022
Fighting Fit For 2022

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This article does not constitute a rating action

S&P Global Ratings

Contents

EMEA Insurers | Alive And Kicking

EMEA insurers' capital surplus has largely recovered, and now stands at 92% of its prepandemic level. For the EMEA insurance sector in aggregate, capitalization is 9% above the 'AA' category, which supports our current ratings.

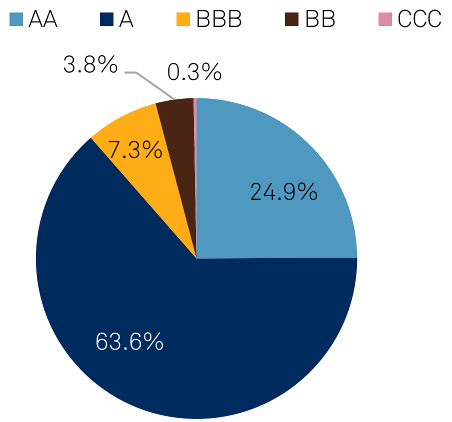
Although competition is picking up in motor insurance, the non-life sector is expected to maintain solid insurance margins. Low and negative interest rates remain a burden for life insurers but, for many, we expect margins to bottom out at prepandemic levels.

In many cases, the quality of capital remained high, with hard capital providing a solid base and hybrid capital limits underused. However, the re-emergence of other uses of capital, such as progressive dividends, share buybacks, and mergers and acquisitions (M&A), suggests that capital adequacy will remain at about the current level.

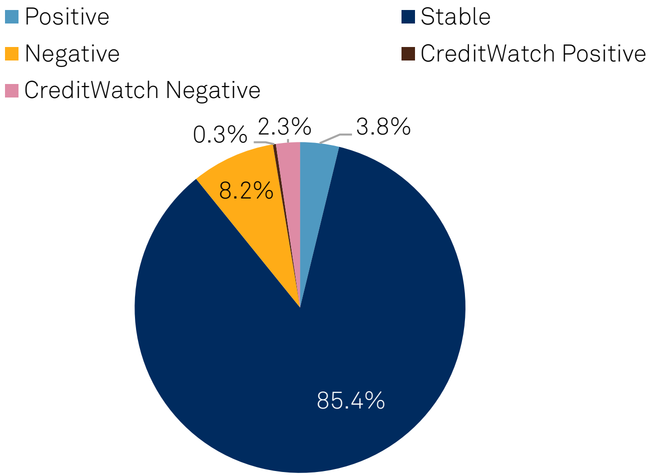
EMEA insurers are well prepared for the current and upcoming challenges. In 2021, upgrades outpaced downgrades, and we saw limited downside risk. That said, we do not expect this trend to continue into 2022.

Source: S&P Global Ratings as of Nov. 8, 2021.

Ratings Remain Strong

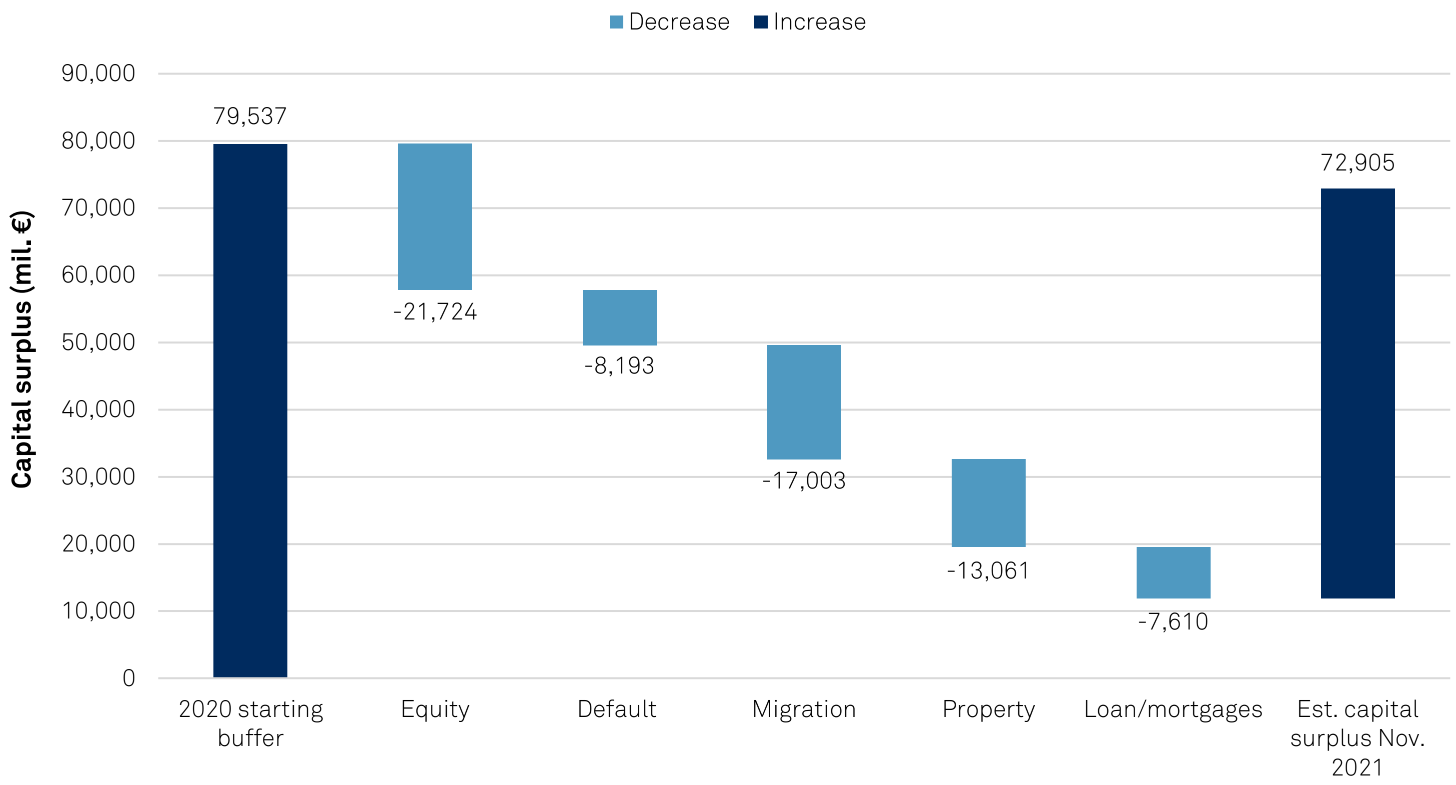


Predominantly Stable Outlooks



Capital Buffers | Back To Being A Key Strength

Capital Surplus Almost At Pre-Pandemic Levels

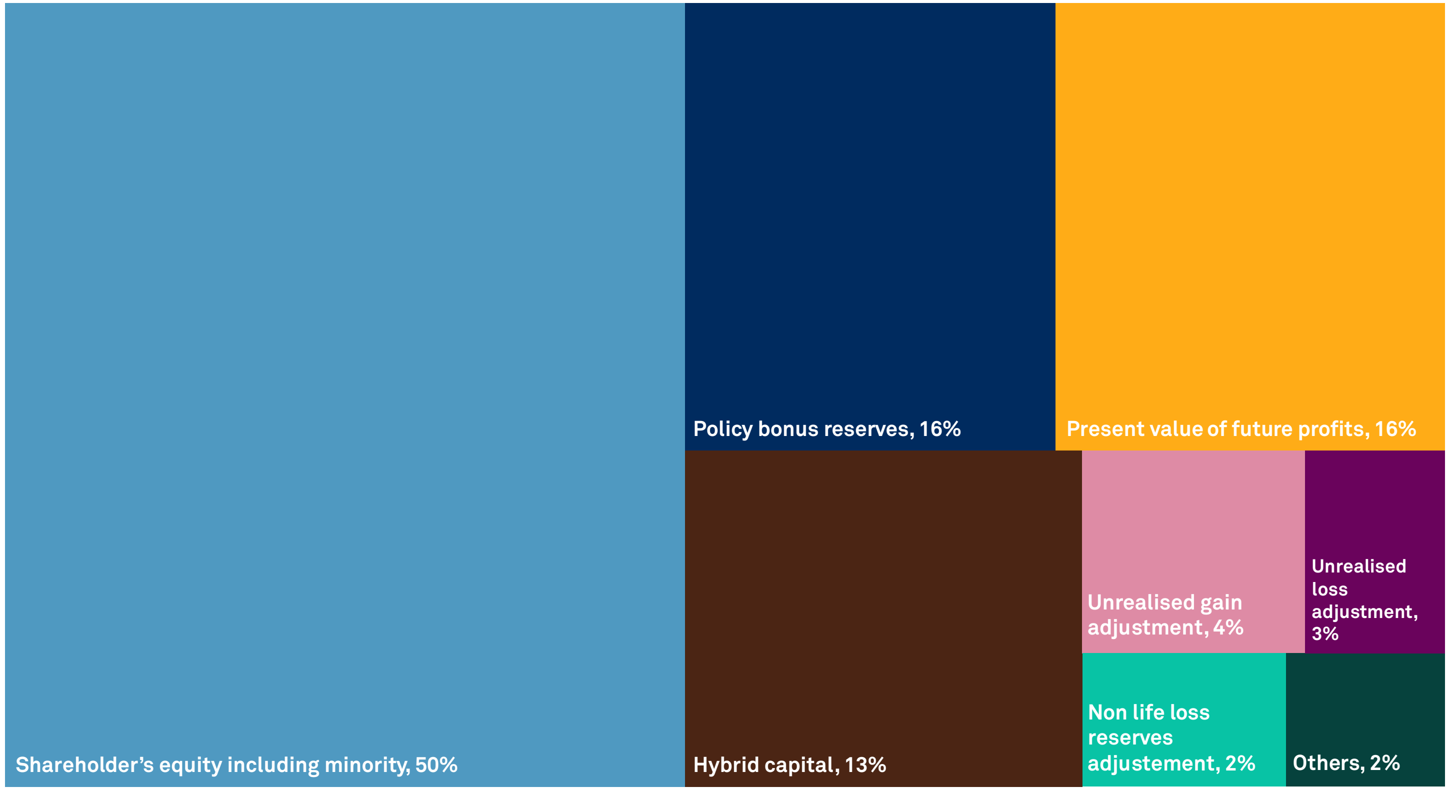


Source: S&P Global Ratings.

- As the capital market has rallied, much of the capital surplus has been reclaimed over the past year.
- Defaults and rating migration caused less capital stress than we feared.
- EMEA insurers are back to progressive dividends, share buybacks, and M&A.
- We expect capital to be rebuilt further but more slowly in 2022, roughly in line with top-line growth.
- We estimate that the capital buffer will remain 8% below its prepandemic level.
- That said, on average, EMEA insurers' capital is 9% above the 'AA' confidence level in our risk-based capital model.

Capital Quality | Hard Forms Of Capital Continue To Dominate

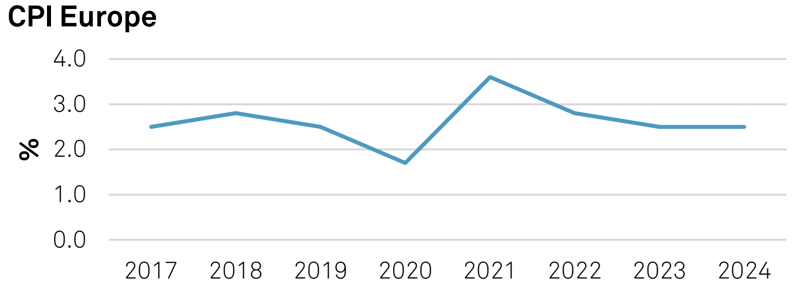
Soft Forms Of Capital



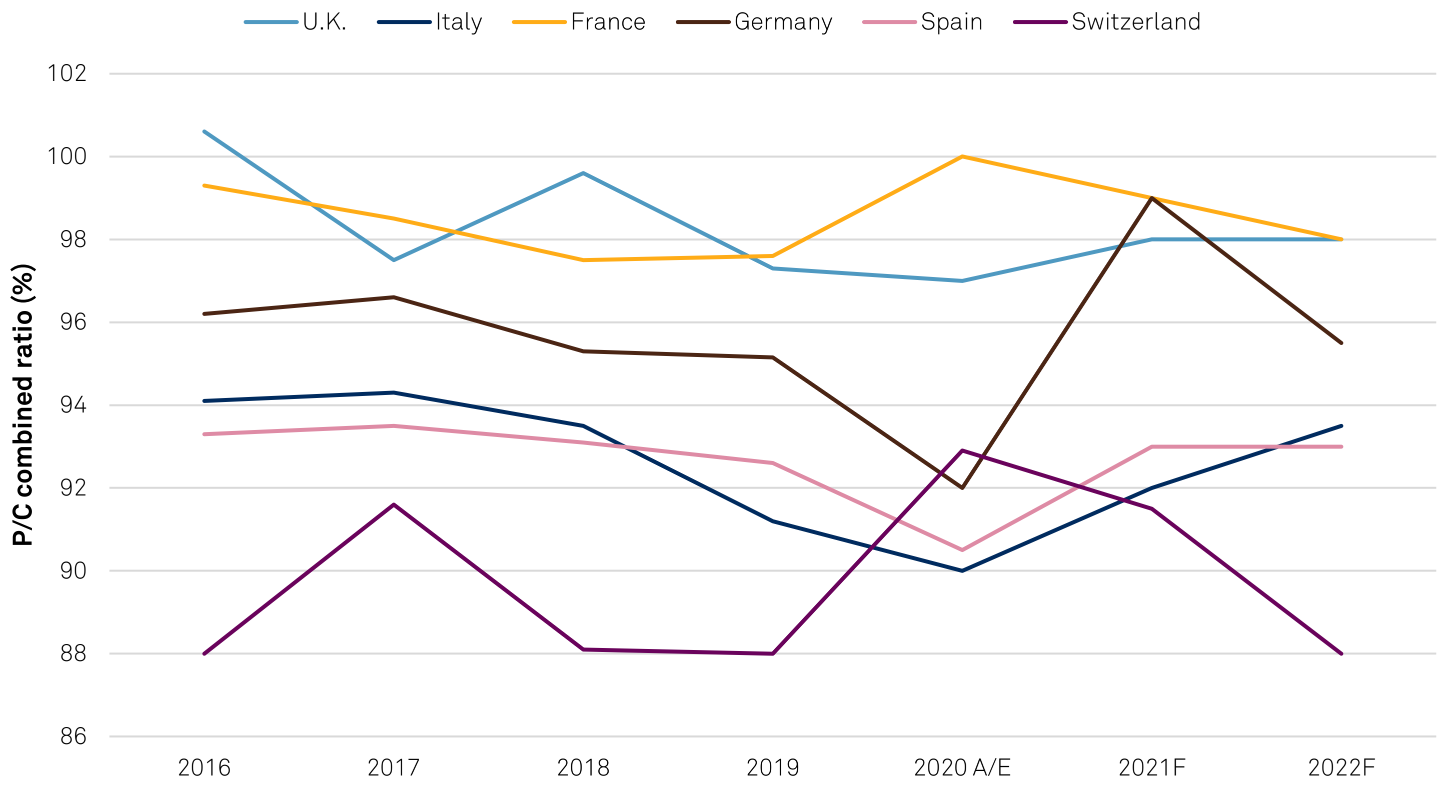
Source: S&P Global Ratings.

- Our view of insurers' capital adequacy relies not only on the amount of total adjusted capital (TAC), but also on the balance between shareholders' equity, for example, which is considered stronger than softer forms of capital such as value in force.
- Most capital resources at EMEA insurers are hard, comprising shareholders' equity and policyholders' capital, e.g., German discretionary profit-sharing reserves ("free RfB") and French deferred policyholder profit sharing provisions (PPE).
- VIF has a sizable share, at 16% of the total.
- The average 7% of unrealized gains are partly offset by the 3% of unrealized losses, making 4% in total.
- Hybrid equity compromises only 13% of TAC in EMEA, indicating some additional hybrid capacity if needed. This is unevenly split across listed and mutual insurers.

Property & Casualty | Healthy Margins



Squeezed Capital Market Returns Require Positive Technical Margins

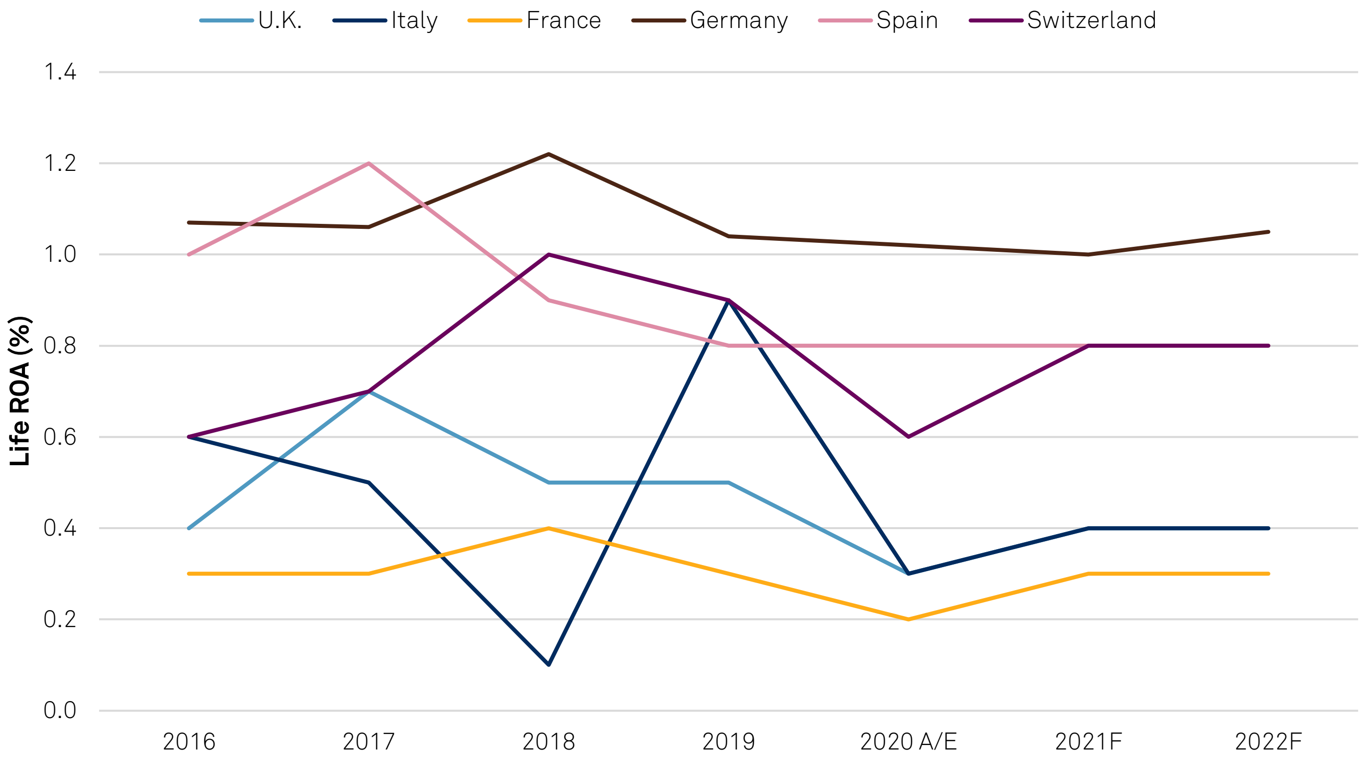


- Alongside low and negative interest rates, property/casualty (P/C) insurers in many EMEA markets displayed solid technical margins.
- After pandemic lockdowns caused windfall profits because of lower claims frequency, competition has now started to increase, and claims frequency is normalizing.
- We expect the recent spike in inflation to be a short-term blip that will not alter claims costs beyond 2021.
- For Germany, we expect a record high natural catastrophe burden after the floods in 2021.
- All in all, for 2022, we expect insurers to maintain robust margins or see only a slight decrease.

P/C--Property / casualty. F--Forecast. A--Actual. E--Estimate. CPI—Consumer Price Index. Source: S&P Global Ratings.

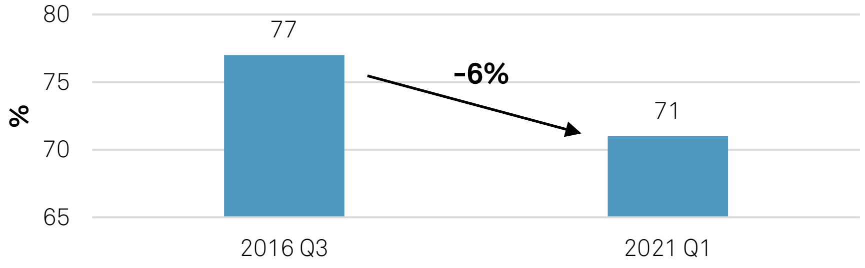
Life Insurance | Margins Bottomed Out

Low And Negative Interest Rates Remain A Challenge



ROA--Return on assets. F--Forecast. A--Actual. E--Estimate. Q--Quarter. Source: S&P Global Ratings.

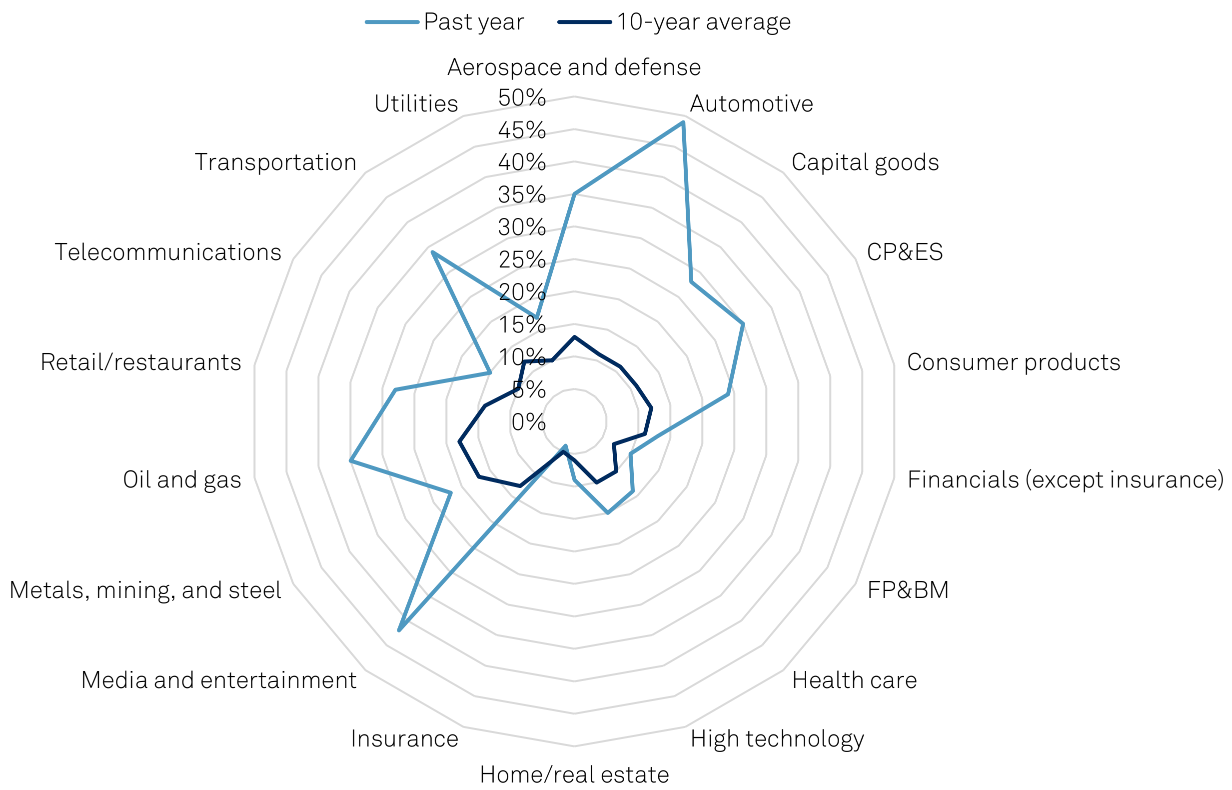
Share Of General Account Assets



- Low and negative interest rates remain a challenge for life insurers in some EMEA markets.
- We expect margins to bottom out in many major life markets.
- For years, insurers have steered new business toward capital-light products that offer guarantees of 0% or even below, protection, and unit-linked life insurance.
- However, the guaranteed general account legacy back-book still comprised 71% of the total in 1Q2021 in the European Economic Area, down from 77% in 3Q2016.
- Germany and Spain have particularly low shares of unit-linked products.

Insurance In 2022 | EMEA Insurers Passed The 2020 Stress Test

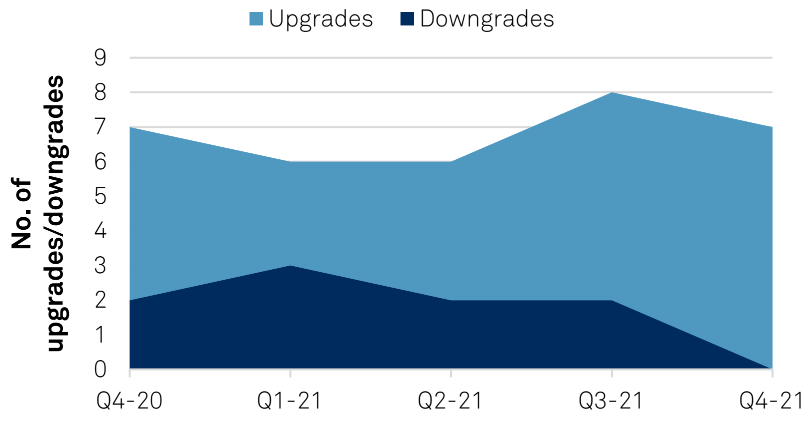
Despite The 2020 Pandemic, Insurance Ratings Retained Their Stability



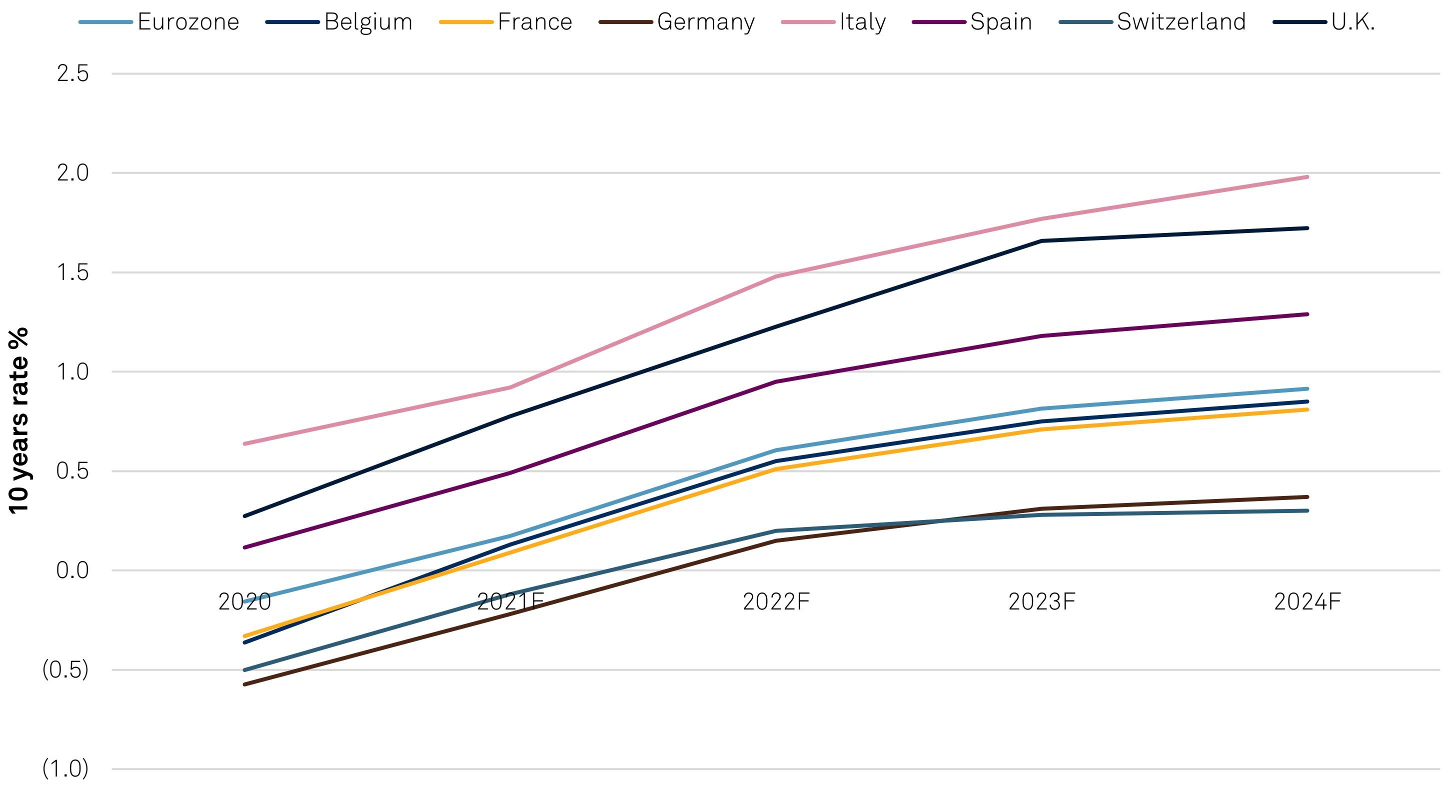
Note: Excludes the diversified sector. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. Data as of Dec. 31, 2020. Source: S&P Global Ratings.

- EMEA insurers passed the COVID-19 and oil price stress test, even in a low and negative interest rate environment.
- The only stresses we didn't see in 2020, and which hypothetically might be added, were heightened lapses in life insurance and a cumulation of catastrophes.
- We already stress test the prospective liquidity position of all insurers we rate, assuming heightened lapses, investments' market value depreciation, and the unavailability of fresh liquidity.
- Of the insurers we rate in EMEA, 69% have an exceptional liquidity position, with more than twice the liquidity required to pass our prospective stress scenarios. The remaining 31% have adequate coverage of above 1x under our prospective stress scenarios.

Insurance In 2022 | EMEA Insurers Upside?



Low Interest Rates Are Here To Stay



F--Forecast. Q—Quarter. Source: S&P Global Ratings.

- Upgrades outpaced downgrades in EMEA insurance during 2021.
- We do not expect this trend to continue into 2022.
- After the 2021 upgrades, more than twice as many ratings have a negative outlook or CreditWatch placement (10.5%) as have a positive outlook or CreditWatch placement (4.1%).
- On average, EMEA insurance ratings are in the 'A' range and 85.4% of them carry a stable outlook.

EMEA Insurers Credit Conditions

S&P Global
Ratings

External Factors | Cross-Sector Key Risks

	Risk level	Risk trend
Supply chain constraints and other inflation pressures leading to downside risk for earnings	High	Improving
Accumulated corporate and government debt creates fragility on the path to policy normalization	High	Unchanged
Vaccine-resistant coronavirus strains slow the economic recovery	Elevated	Improving
Transition toward a low-carbon economy presents challenges and risks in a post-COVID-19 world	Elevated	Worsening
Critical global infrastructure and interdependent digital networks are highly vulnerable to cyber attacks	Elevated	Unchanged

Insurance Key Risks | Structural Risks Revealed After Recovery

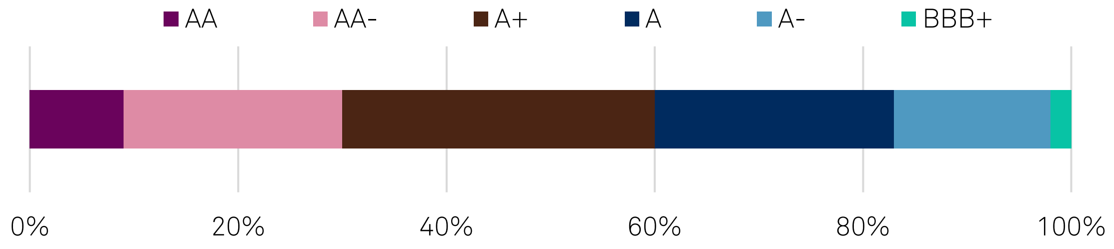
Risk factor	Descriptor	Risk trend	What could change?	EMEA
Asset risk	Drop in value of insurers' invested assets as a result of financial market volatility. Persistent low interest rates depressing life insurers' investment margins.	Decreasing	Life insurers' investment margins appear to have bottomed out, and although this is challenging, we expect them being able to deal with long duration legacy back books with a material amount of guarantees.	Moderate
Insurance claims	The spike in 2021 consumer price index inflation might lead to higher insurance claims in 2021. Flooding events and wildfires led to higher insured losses in some markets.	Decreasing	Inflation assumed to normalize in 2022.	Moderate
Insurance top line	We observed some top-line recovery in 2021, and expect full economic recovery for 2022.	Unchanged	Economic hiccups, for example, around supply chain issues, might affect the top line in selected segments and markets.	Low
Financing conditions	Financial market volatility and investor uncertainty might make it difficult to issue new instruments.	Unchanged	Financial markets and quantitative easing facilitate strong liquidity and new issuances, while refinancing remains favorable for insurers.	Low
Hybrid ratings	Volatility in regulatory solvency ratios could heighten deferral risk.	Unchanged	Starting point for solvency ratios is very high in many markets, and insurers narrowed the duration gap further to benefit solvency ratios. Solvency II updates might affect selected life insurers' solvency ratios in the long run, to a limited extent.	Low
Climate transition	Transition toward a low-carbon economy presents challenges and risks in a post-COVID-19 world	Increasing	Insurers can act as enablers for society to transition to a low-carbon future through their roles as underwriters, investors, and risk advisors. This offers opportunities for new products and revenue streams. However, risks to capital and earnings persists for those with concentrations in industries which are exposed to the transition.	Moderate
Cyber risk	Critical global infrastructure and interdependent digital networks are highly vulnerable to cyber attacks	Increasing	Rising tide of economic losses due to cyber attacks presents an opportunity for the growing cyber insurance market, but with it a need to understand and price the underlying risks. Insurers also face increasing attacks and must protect customer data and privacy or risk reputational or financial damage.	Moderate

Sector Credit Overviews

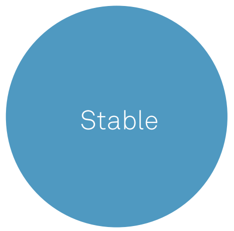
S&P Global Ratings

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, and material capital buffers.
- Margin squeeze expected to have ended.
- Slow but steady shift to less-risky products that have lower capital requirements.

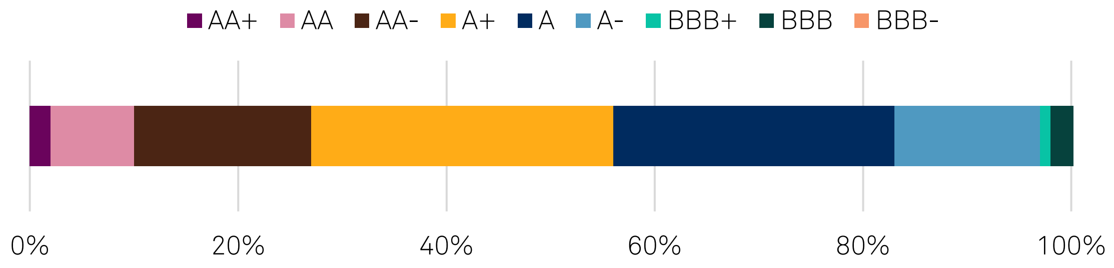
Negative outlook triggers:

- Still-low interest rates continue to weigh on investment margins.
- Ongoing slight increase in risk as insurers invest in less-liquid, lower-credit-quality assets, such as private loans and private equity.
- Increase in speculative-grade defaults and rating transition remains a risk.

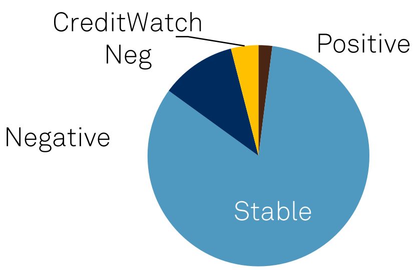
Source: S&P Global Ratings as of Nov. 8, 2021.

European Nonlife Insurers | Credit Overview

Ratings Distribution



Outlook Distribution



Our outlook for the EMEA non-life insurance sector is stable.

Key rating factors:

– Ongoing strong technical profitability in many EMEA non-life insurance markets.

– Solid capital adequacy and prudent investment exposures.

– Well-diversified portfolios over products and regions.

Negative outlook triggers:

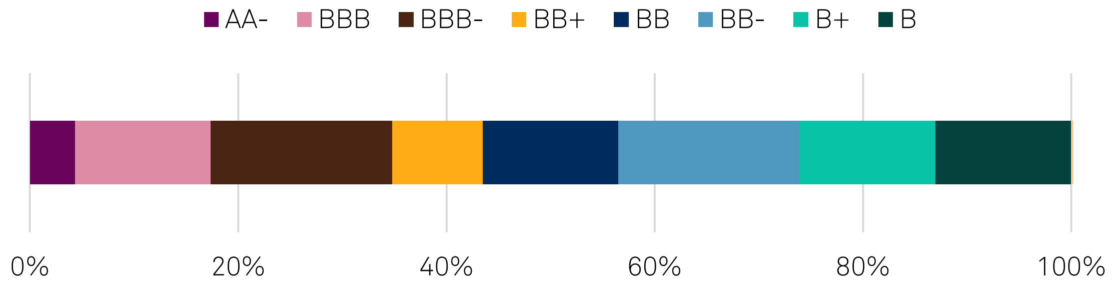
– Strong technical profitability increases willingness to compete on price.

– Spike in inflation increases costs.

Source: S&P Global Ratings as of Nov. 8, 2021.

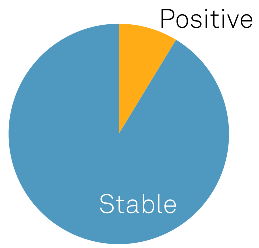
Russia And CIS | Credit Overview

Ratings Distribution*



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

Outlook Distribution



Our outlook for the insurance sector in the Commonwealth of Independent States (CIS) is broadly stable.

Key rating factors:

- Most companies demonstrate sufficient capitalization and good technical profitability.
- Investment income is likely to be boosted by rising interest rates in most economies.
- Regulatory frameworks are generally improving, although they still lag developed markets.

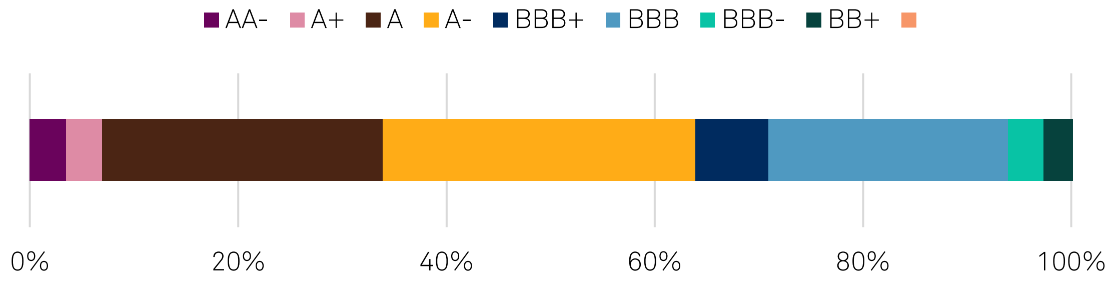
Negative outlook triggers:

- Potential pressure on ratings on local banks could dampen the credit quality of insurers' investment portfolios, given their high exposure to local banking systems.
- In certain markets, we see a risk that fierce competition could eat into insurers' profit margins.
- Sovereign credit ratings could constrain ratings on insurers, given their material exposure to local instruments.

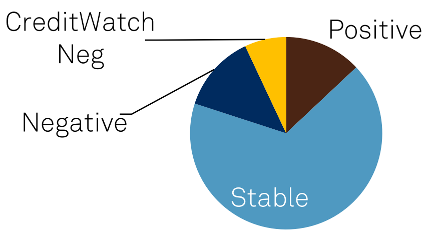
Source: S&P Global Ratings as of Nov. 8, 2021.

Gulf Corporation Council (GCC) | Credit Overview

Ratings Distribution



Outlook Distribution*



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

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

Key rating factors:

- Very robust capital adequacy—more than 90% of our rated insurers maintain capital adequacy above our 'AAA' benchmark.
- Satisfactory technical profitability in most non-life insurance markets in the Gulf.
- Limited exposure to COVID-19-related claims, natural catastrophe, or other large risks.

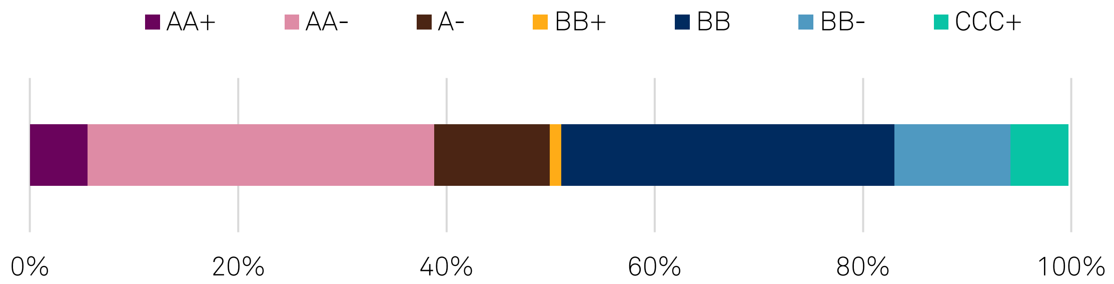
Negative outlook triggers:

- Elevated exposure to high-risk assets could affect earnings and capital buffers, if market volatility returns.
- Intense competition, particularly in motor and medical lines, leading to weaker operating performance and earnings.
- A significant increase in bad debt provisions, hitting earnings and liquidity buffers, as a result of a slowdown in premium collection and new accounting standards.

Source: S&P Global Ratings as of Nov. 8, 2021.

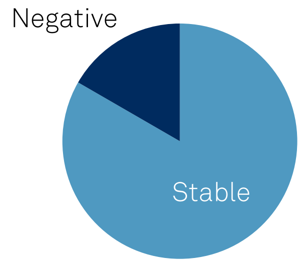
South Africa And Rest of Africa | Credit Overview

Ratings Distribution*



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

Outlook Distribution



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

Key rating factors:

- Generally, high economic and country risk constrains our ratings (unless a guarantee is present from the parent).
- Resilient capital buffers within the South African market, which makes up most of the premiums from Africa. Rest-of-Africa entities usually have a small capital base and limited earnings.
- Profitability for both 2020 and 2021 affected by COVID-19-related provisions (notably mortality-related losses across both periods, and business interruption in 2020), although capital remains resilient.
- Returns have yet to return to their historical highs but are expected to recover over the medium term.
- Low asset quality remains a concern, given most assets are held domestically (this is already reflected in ratings).

Negative outlook triggers:

- More pressure on sovereign creditworthiness and, by extension, asset quality.
- Sustained poor economic conditions affecting broader growth environment and reinforcing the pressure on earnings.

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