EMEA Insurance Outlook 2023

In The Midst Of The Perfect Storm

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Contents

EMEA Insurers | Resilient For Now

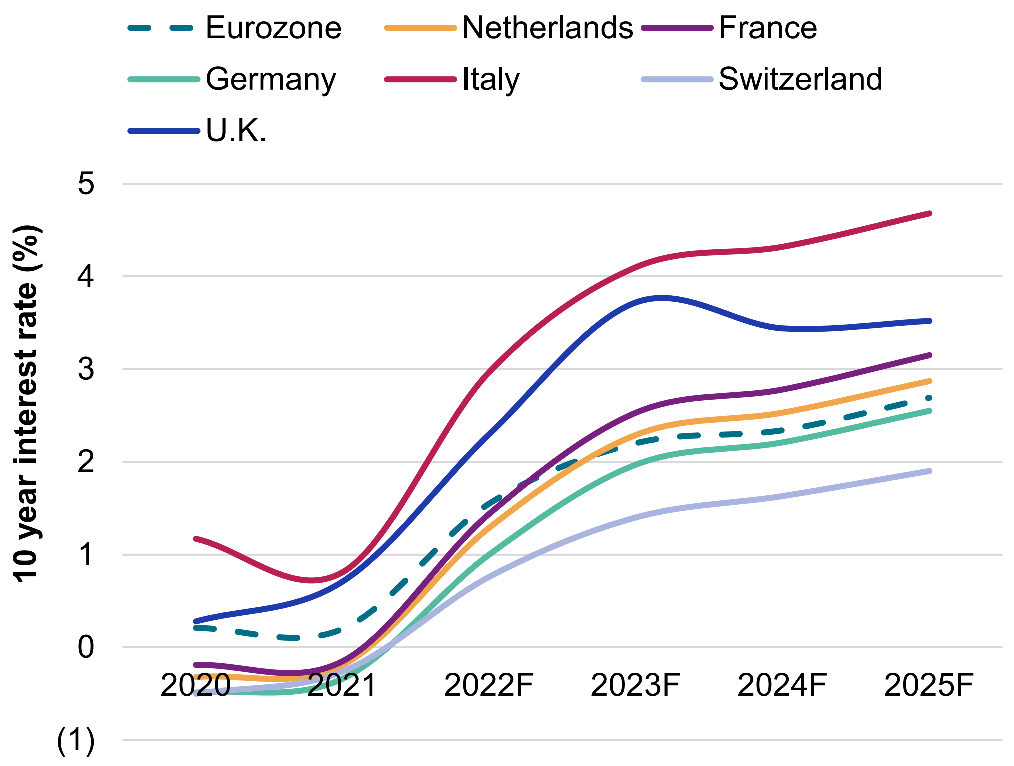
- Capital market volatility, recessionary risks, and heightened inflation pose a risk to EMEA insurers, while rising interest rates support investment income.
- We do expect operating performance to remain solid, and inflation and recessionary risks not to fundamentally question business positions in 2023.
- Earnings year to date have displayed mark-to-market investment revaluations disproportionally impacted by reported IFRS 4 shareholder equity and investment impairments.
- While we expect investment risks to stem mainly from life insurers' illiquid assets and derivatives, their investment margin and embedded value value-in-force benefits from higher long-term interest rates.
- In most EMEA markets, non-life premium rate increases are attempting to match rises in inflation rates.
- Reserve additions in long-tail lines, like casualty, will continue in 2023 and may become sizable.
- We keep a negative view of the reinsurance subsector, as premium rate increases might match inflation but be insufficient to strengthen profitability.

Strong rating position	Resilient performance	Strong capitalization	Liquidity
65%*	**83%***	**Ø A level**	**70%**
'A' category ratings	Stable outlook	Capital surplus erosion	Exceptional

*As on Nov. 1,2022

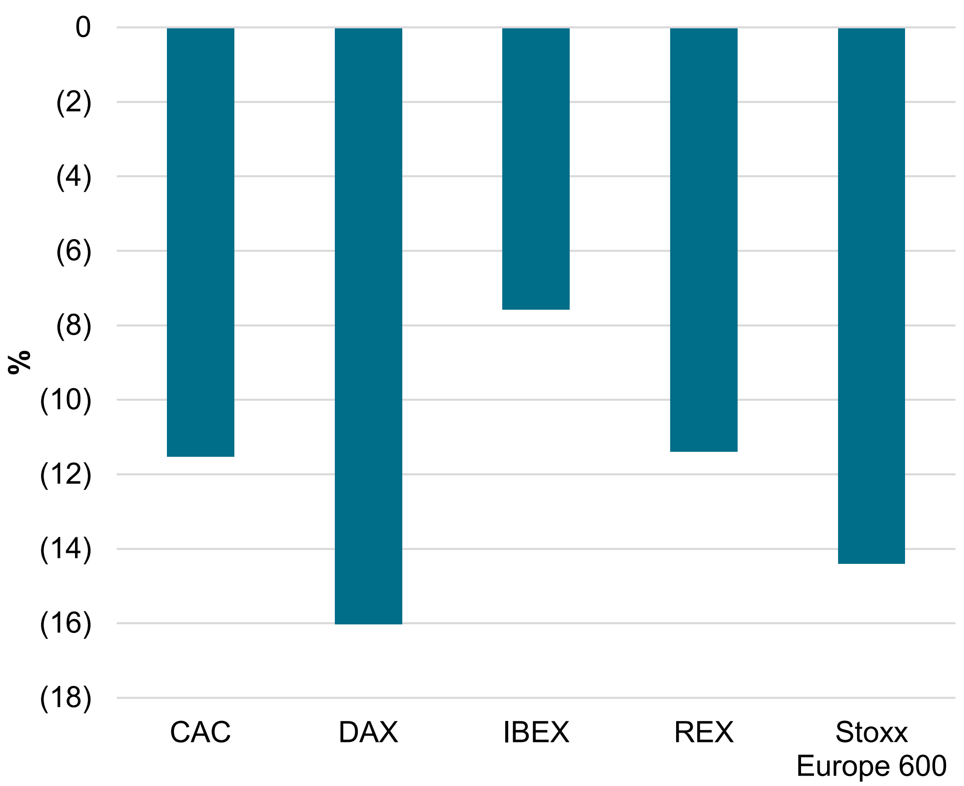
Rising Rates, But Still A Relatively Low Yield Environment

Interest rates to continue upward climb



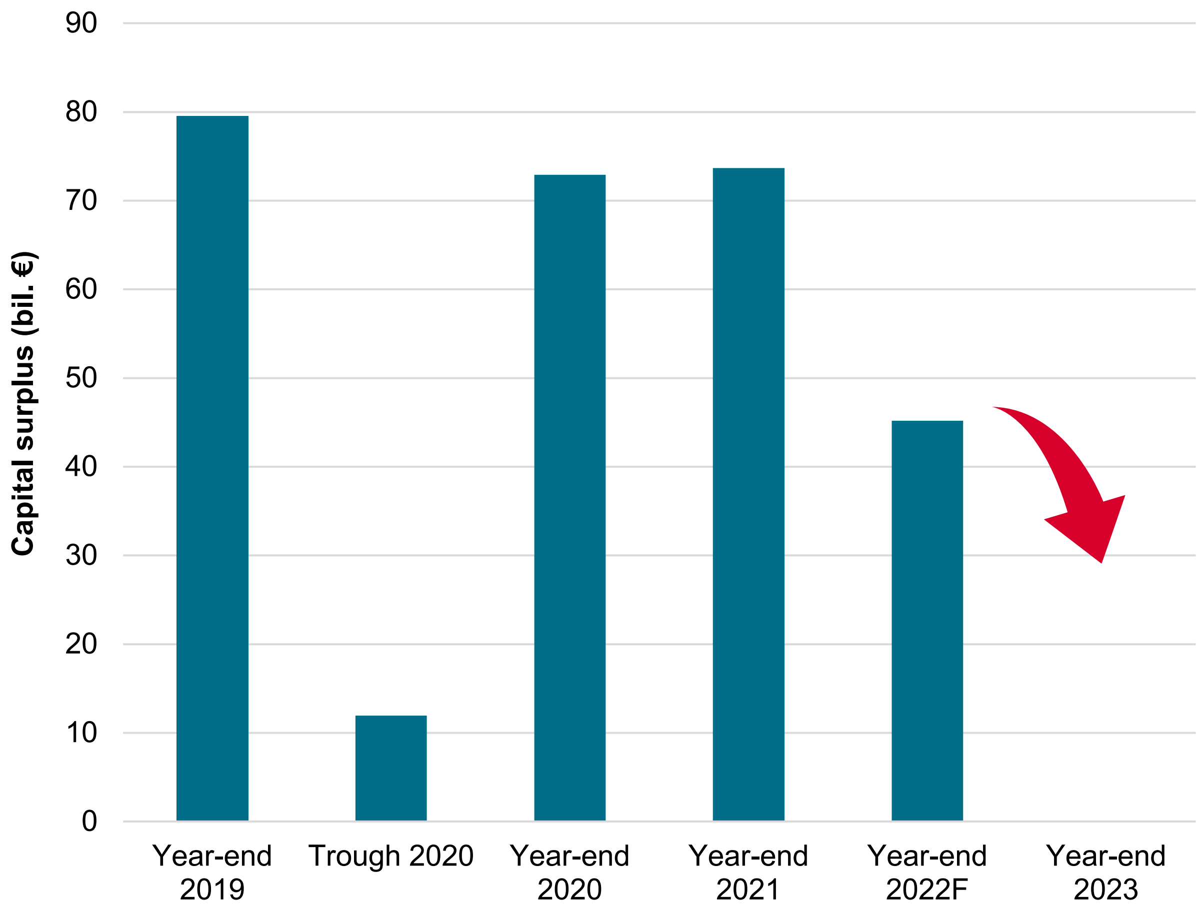
F—Forecast. 0Source: S&P Global Ratings

Risk aversion in capital markets continued



Erosion Of Capital Surplus To Continue In 2023

- Bond market devaluation disproportionally hit IFRS 4 balance sheets, distorting financial leverage ratios.
- IFRS 17 balance sheets from 2023 onward will provide a more economic view.
- But some illiquid assets and lower credit quality assets will display some impairments, fueled by recessionary risks and higher refinancing costs for corporates.
- Life insurers, which accumulated exposures in private credit and private equity in search for yield, face those challenges in 2023.
- Derivative exposures, mainly life insurers' interest rate downside protection, will continue to take their toll, but will remain manageable given strong liquidity.
- We expect progressive dividend policies and share-buy backs to continue but also expect highly liquid, high credit quality bonds to pull to par over time.



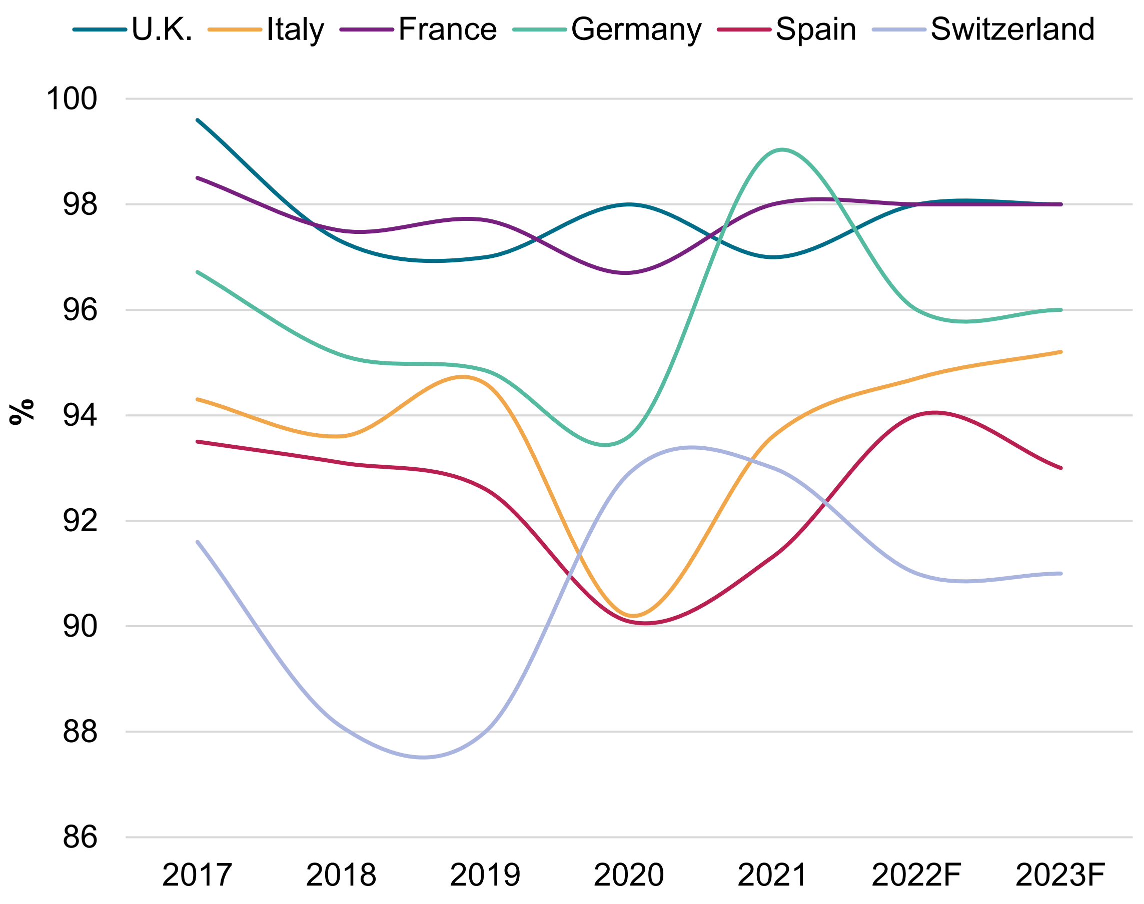
F—Forecast. Source: S&P Global Ratings.

Property/Casualty | Solid For Now?

Inflation and recessionary risks are a challenge

- We observed P/C insurers and re-insurers working hard to translate higher inflation into higher premium rates.
- In most EMEA markets, we expect technical margins to persist, highlighting business model resilience.
- Heightened inflation requires some reserve additions, mainly in long-tail lines like casualty.
- We expect only a slight hit to earnings in our base case assumption for 2023 and beyond.
- Rising reinvestment rates should cushion heightened capital market risks, and unrealized losses on short-duration bond investments are expected to pull to par.
- Geopolitical risks are depressing GDP growth and subsequently gross written premiums.
- Mandatory insurance, like motor, to be less affected than other business lines.

P&C Combined Ratio (%)



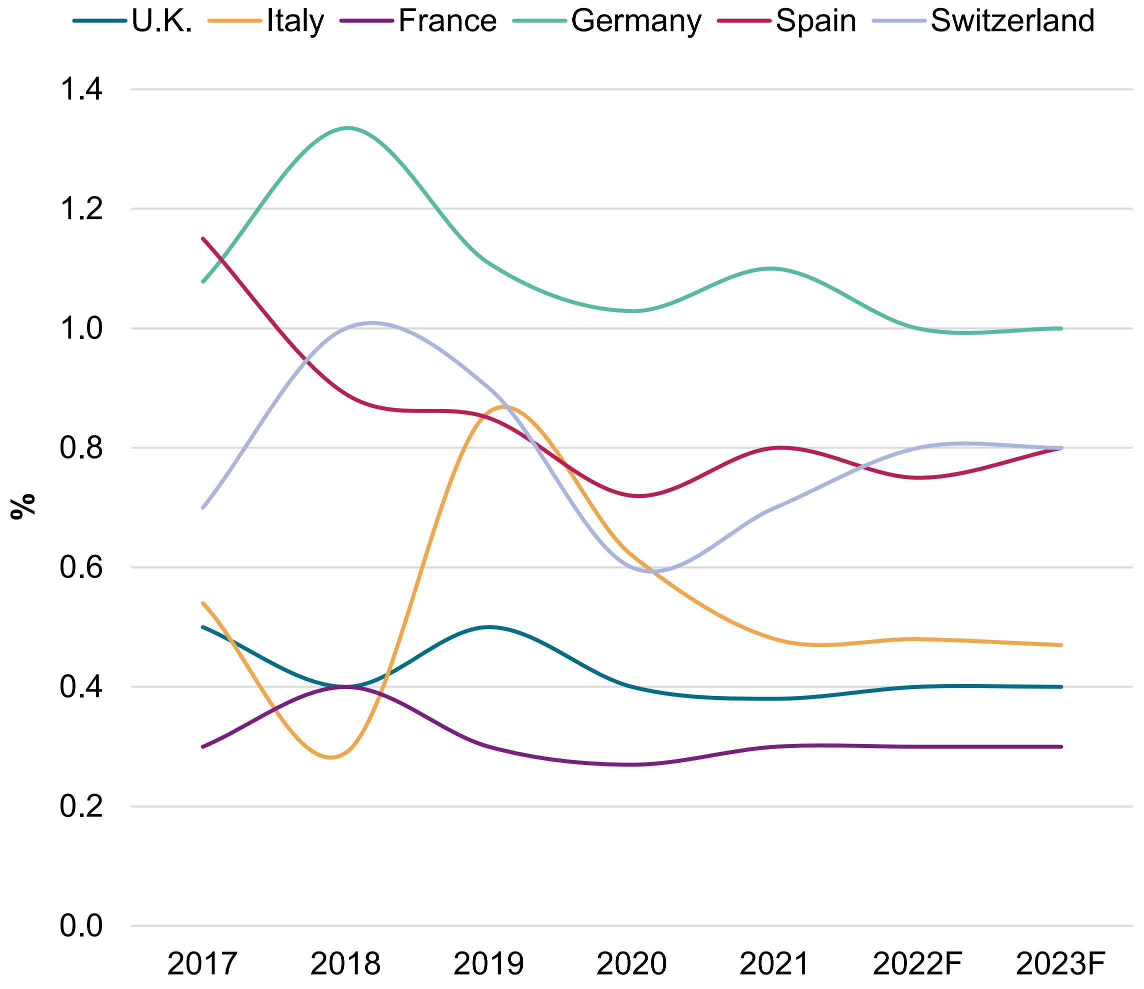
F—Forecast. Source: S&P Global Ratings

Life Insurance | Investment Concerns

Historical investments in some illiquid assets to bite in 2023

- Life insurers will start to slowly benefit from higher reinvestment rates in 2023.
- Some illiquid investments in private credit and private equity might lead to some impairments in 2023, as refinancing costs for corporates rise and recessionary risks prevail.
- We expect robust policyholder persistency, despite investment alternatives offering attractive returns.
- We expect increasing pressure from policyholders to increase crediting rates because of rising interest rates, despite overall volatile capital markets. And we expect some headwinds to the push into capital-light products in some markets.
- Recessionary risks and rising cost of living might take their toll in selected countries, as competition for life insurers might not be other life insurers, but the bill for gas and electricity.

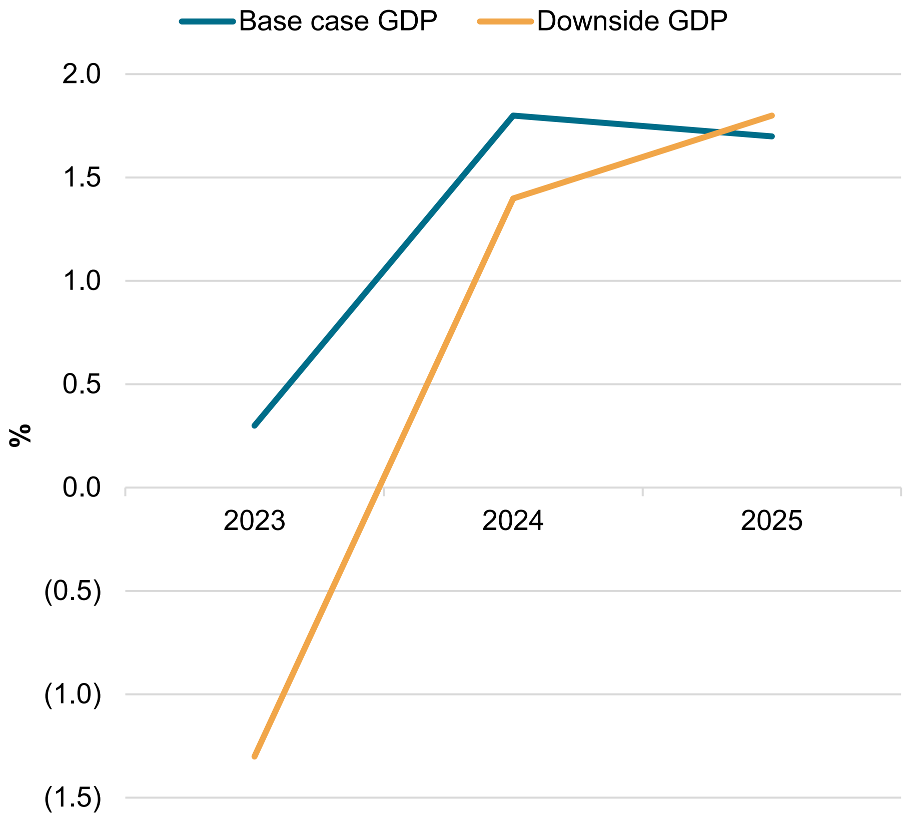
Life ROA



F—forecast. Source: S&P Global Ratings

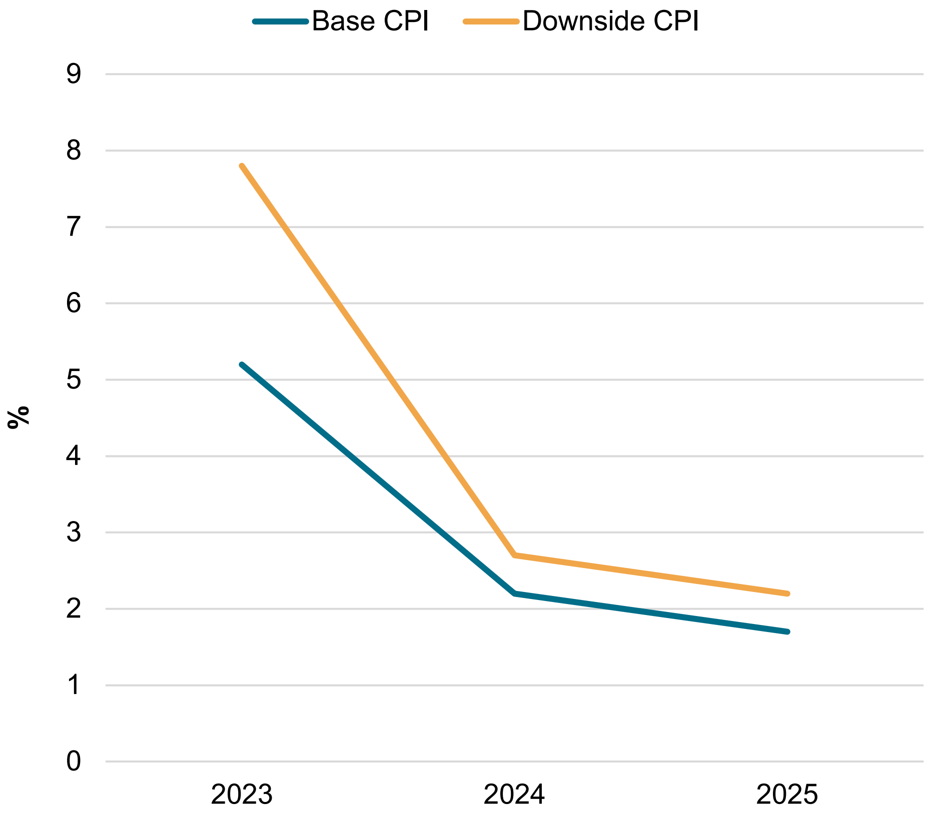
Downside Scenario: Energy Crisis, Inflation Pressures, Rising Interest Rates, And Recession

Real GDP Growth



Source: S&P Global Ratings as of Oct. 12,2022.

CPI Average



Source: S&P Global Ratings as of Oct. 12,2022.

External Factors | Key Risks

Risk	Risk Level	Risk Trend
Russian threats to escalate and broaden out the conflict In Ukraine.	High	Worsening
Financing conditions become overly restrictive as ECB front-loads monetary policy tightening.	High	Worsening
Recession risks are rising as a protracted war, energy scarcity, and slowing growth in the U.S. and China take their toll in Europe.	High	Worsening
EU and U.K. energy market interventions are necessary but costly and complex to implement on a timely basis.	Elevated	Worsening
Heightened disruptions from physical and transition risks from climate change.	Elevated	Worsening
Mounting cyber attack risks from geopolitical tensions and increasing digitalization.	Elevated	Worsening

Source: S&P Global Ratings. 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.

Insurance Key Risks | Insurance Investments Top The List Again

Risk factor	Descriptor	Risk level	Risk trend
Asset risk	Equity and bond market drops impact insurers' balance sheets. A pickup in defaults in private equity and private debt may take its toll, impacting some life insurers.	Elevated	Worsening
Insurance claims	Inflation leads to higher insurance claims. Natural catastrophe claims, Russia and Ukraine-linked speciality lines claims, and COVID-19-related claims burden EMEA based re/insurers.	Moderate	Worsening
Insurance top line	Geopolitical risk impacts GDP, and subsequently insurers' top lines in some segments.	Moderate	Worsening
Financing conditions	Rising interest rates and higher capital market volatility have increased the cost of refinancing.	Moderate	Worsening
Hybrid ratings	Volatility in regulatory solvency ratios could heighten deferral risk.	Low	Unchanged
Climate transition	Delay in the transition to carbon-neutral energy supply due to the immediate need for energy.	Moderate	Worsening
Cyber risk	Pickup in cyber attacks to challenge insurers' firewalls and their cyber insurance exposure.	Low	Worsening

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