European Insurance Mid-Year Outlook 2023

Challenges Loom

S&P Global Ratings

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This report does not constitute a rating action

European Insurers | Testing Times

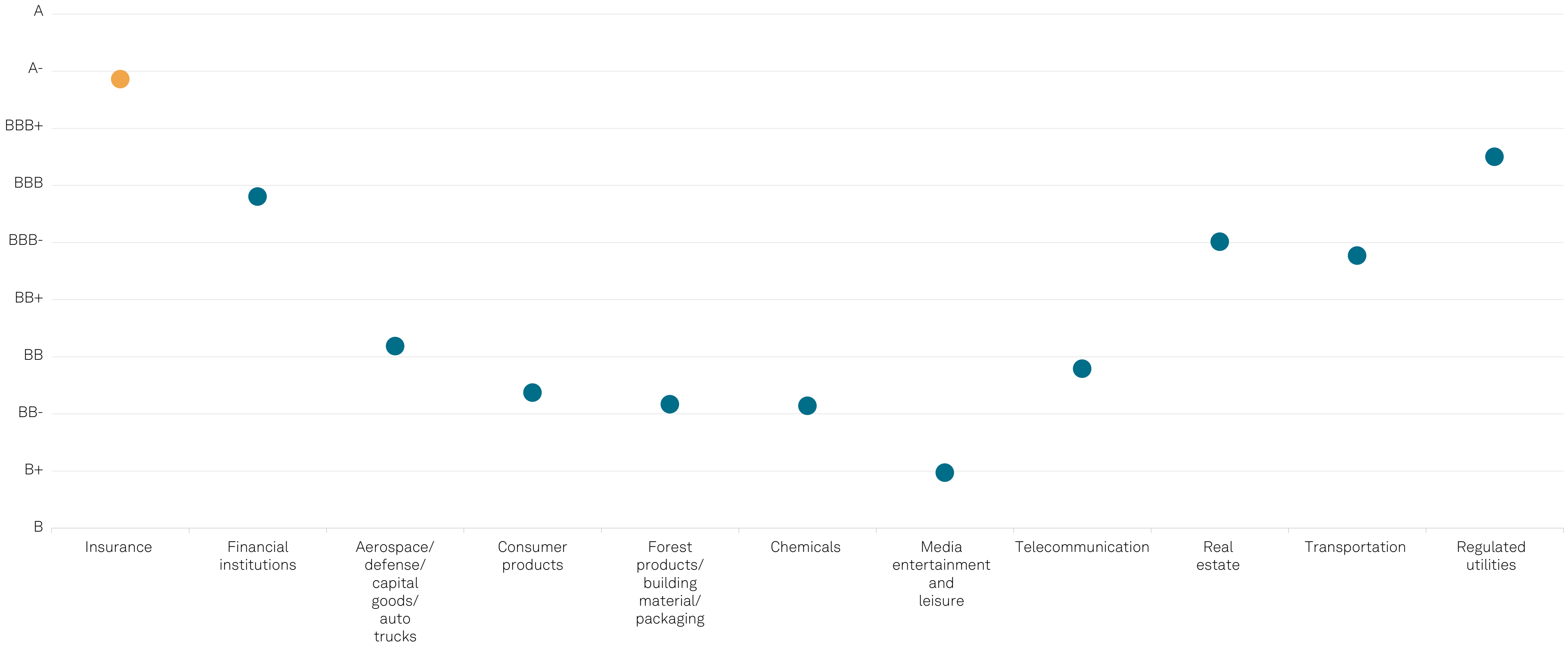
- European insurers face numerous challenges linked to economic growth, inflation, interest rates, and investment.
- However, insurers' capital strength, liquidity, and rising re-investment rates counterbalance these obstacles.
- The effects of muted economic growth will materialize on insurers' top lines, but we regard this as neutral to our ratings.
- We remain cautious over life insurers' illiquid investments in real estate, private credit, and private equity; these may take their toll over 2023-2025.
- Most non-life insurers we rate adjusted their pricing and reserving practices to the ongoing high inflation, but some are lagging behind.
- Rising hard market rates benefit re-insurers, but storm season is impending.

Strong rating position	Resilient performance	Strong capitalization	Liquidity
71%	82%	Ø A level	69%
'A' category ratings	Stable outlook	Capital surplus erosion	Exceptional

As of April 27, 2023.

EMEA Insurer Ratings | Confirming A Strong Position

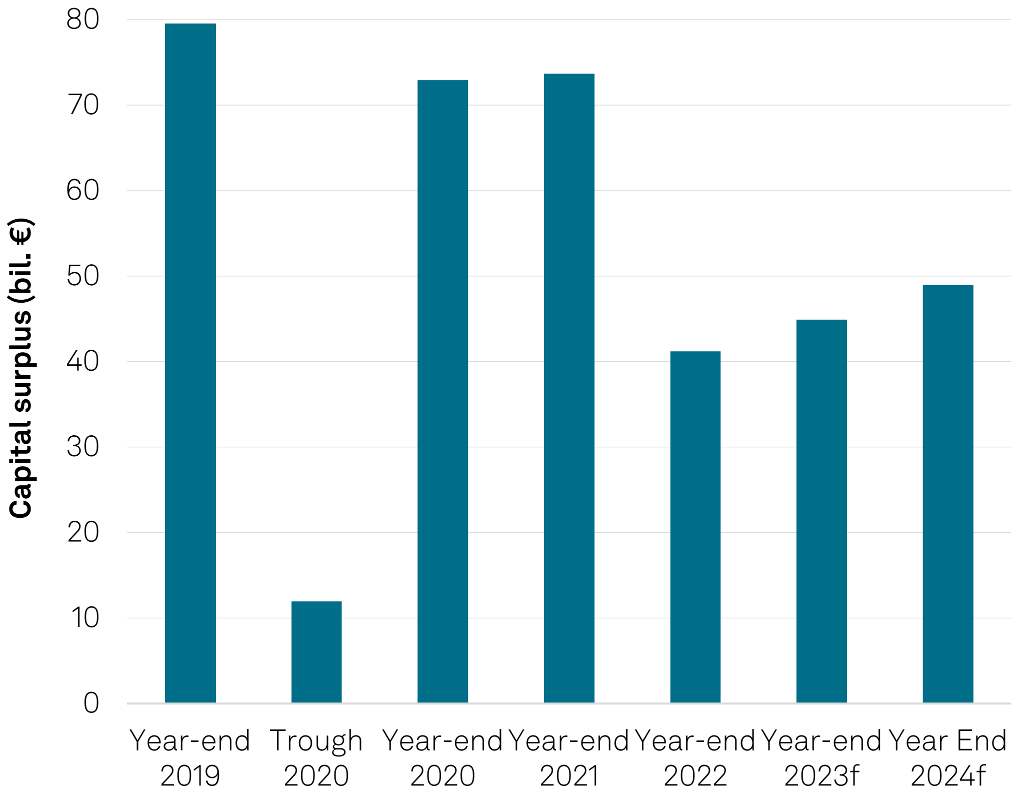
Average rating by industry July 2023



Investments | Manageable Volatility To 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, insurers' capital surpluses were mainly eroded by the drop in the value of their investments including bonds.
- 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.
- Life insurers hold some legacy illiquid investments in real estate, private equity, and private debt, which might lead to impairments during 2023-2025.
- So far impairments are low and will remain manageable over 2023-2025.
- Because of the profit and loss sharing characteristics in participating life books, some of the investment loss will be absorbed by policyholders.

EMEA insurers' capital surplus

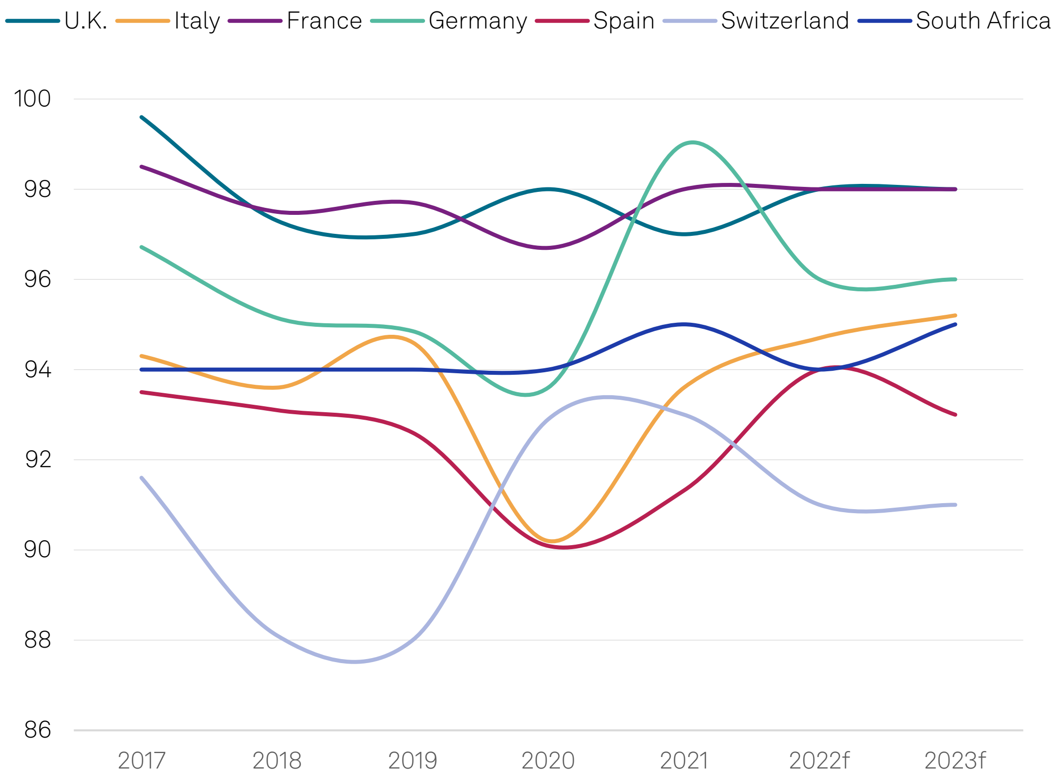


f--Forecast. Source: S&P Global Ratings.

Property/Casualty | Inflation Persists

- We expect non-life insurers to continue performing robustly, as seen so far this year.
- Despite muted GDP growth and exposure growth, many non-life insurers we rate successfully implemented premium rate increases to offset inflation.
- We expect inflation in the eurozone 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%.
- Following premium rate increases by primary insurers in 2021, 2022, and 2023, re-insurers benefit from a hard market and display successful renewals with two-digit premium rate increases.
- Higher attachment points and increased re-insurance premium rates might weaken primary insurers' results, while we understand this is a normalization.
- We regard reserve strengthening to mirror inflation as limited; only a higher-for-longer inflation environment might increase the need to materially build up reserves.

Property/casualty combined ratio (%)

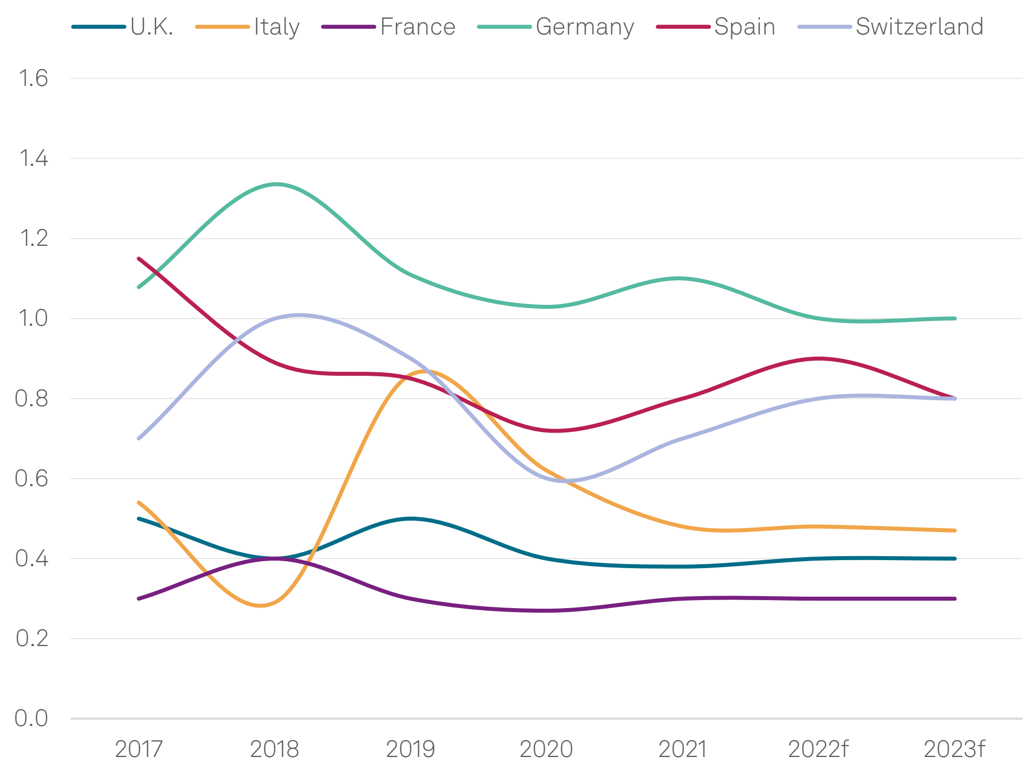


f--Forecast. Source: S&P Global Ratings

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.
- 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.

External Factors | Key Risks

Risk	Risk Level	Risk Trend
Economic growth fragility, despite recent resilience	High	Worsening
Escalation and broadening of the Russia-Ukraine conflict	High	Worsening
Higher interest rates and reduced funding availability weigh on financial risk profiles	High	Unchanged
Falling real estate values and rising cost of capital undermine confidence and create funding challenges	Elevated	Worsening
Heightened disruptions linked to climate change and the energy transition	Elevated	Worsening
Mounting cyber attacks due to geopolitical tensions and increasing digitalization	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 2023-2025.	Elevated	Worsening
Insurance claims	The increase in claims cost might outsize 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	Slightly 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.	Low	Worsening

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