

# European Insurance: Clouds Lifting

Martina Seydoux  
*Senior Insurance Analyst*

## Fundamental 2023 Outlook for European Insurance

- Solvency Position across the Industry
- Profitability Expectations
  - Non-Life Insurance
  - Life Insurance
  - Reinsurance

## Relative Value 2023 Outlook for European Insurance

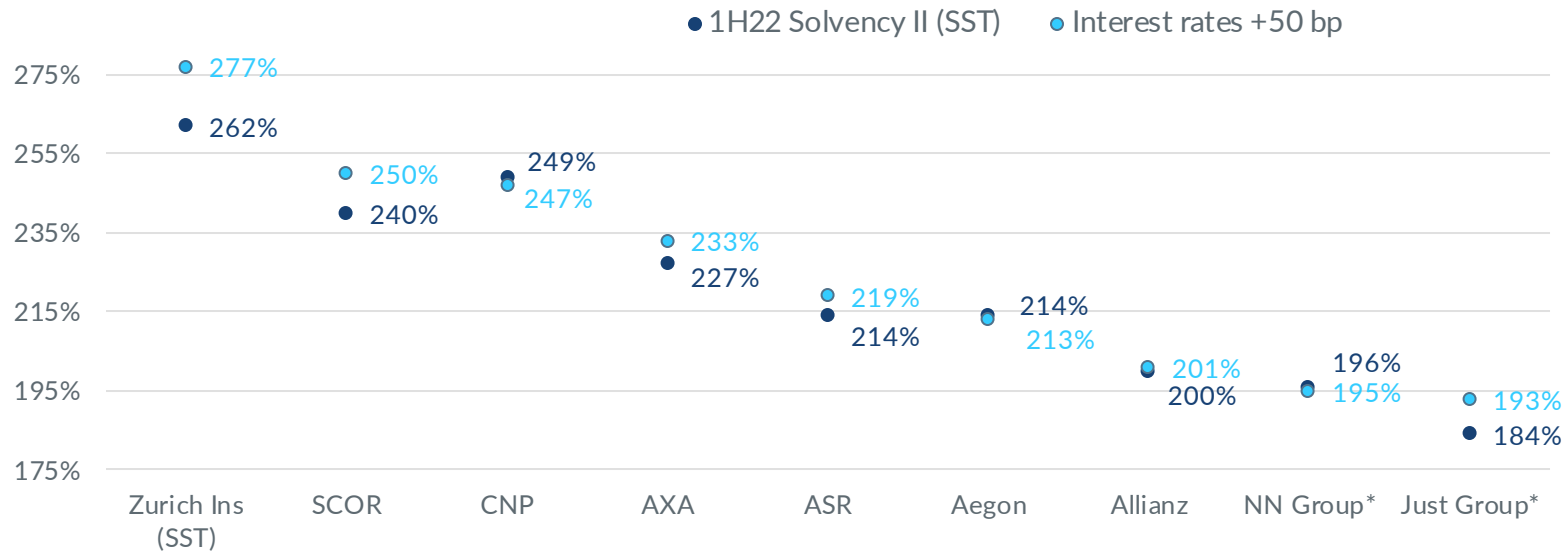
- Primary Market Outlook
- CreditSights European Insurance Recommendations
- CreditSights European Insurance Picks and Pans

# Solvency Ratios Boosted By Higher Interest Rates...



Interest rates hiked by 175-200 bp in 2H22 so far...

Impact of +50 bp Interest Rates Increase on Solvency II (SST)



\* Sensitivities disclosed on Solvency II including TMTP basis



+ 200 bp



+ 175 bp



+ 225 bp

# Solvency Ratios Boosted By Higher Interest Rates...



Higher Equities

Stoxx 600 Europe up 8% since 1H22



Wider Credit Spreads

10-yr treasury spreads over  
10-yr German bund since 1H22



+ 34 bp



- 6 bp



- 14 bp



Capital Deployed?



Higher interest rates will support solvency levels in 2023



# Non-Life Profitability: Shielded By Higher Prices

## Rising claims driven by inflation

- ↑ **Economic inflation**
- ↑ Supply chain issues
- ↑ Rising weather-related and natural catastrophes losses
- Normalised claims frequency post COVID-19

## Lower Reinsurance Capacity

- 10-20% less reinsurance capacity than needed
  - To discontinue or to write at higher cost?

## Investment Income below Inflation

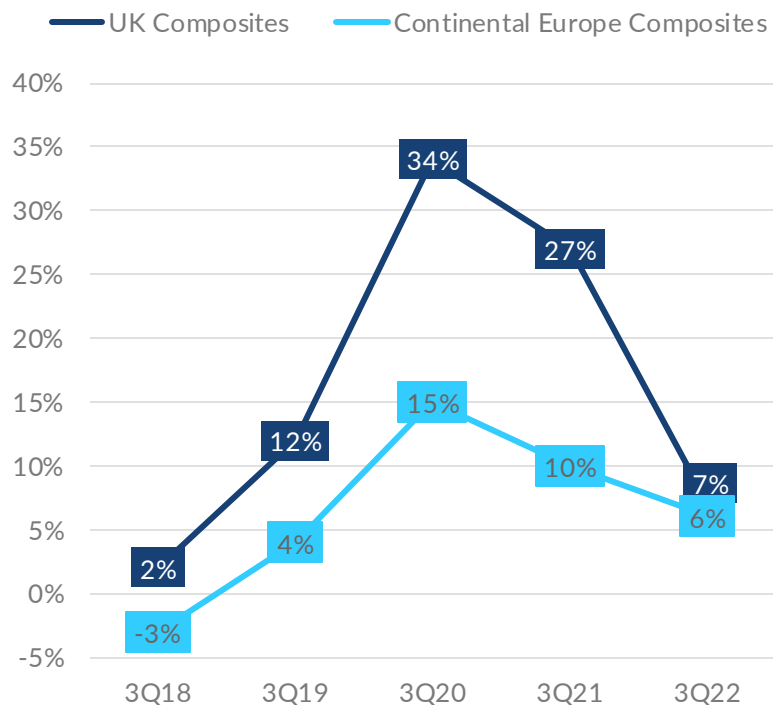
- Rising interest rates will take time to earn through



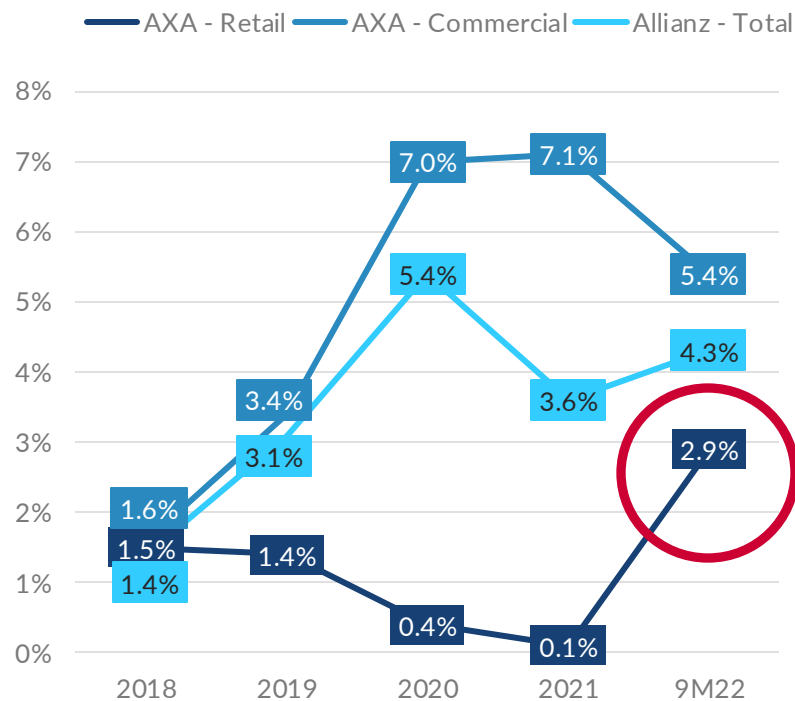
Prices need to increase... but are clients able to absorb it?

# Non-Life Profitability: Shielded By Higher Prices

Corporate Pricing 2023: Sufficient 



Retail Pricing 2023: Behind Inflation 



Reinsurance Pricing 2023:  
Very Favourable 

Ability to increase prices to policyholders will be essential

# Life Profitability: Delivering

## Back books to continue earning stable profits

- **Stable earnings reflecting stable investment yields**
- ↓ Bleak economic outlook can translate to investment losses
- ↑ Cushion: low interest rates reserve buffers
- New business: Depressed net flows may offset higher margins

## Trends to watch for (higher interest rates)

- Investment strategies – stable?
- Revival of profit-sharing with policyholders - in sight?
- Lapse risk – limited?

## Focus on UK Solvency II reform

- Impact on insurers will depend on the deployment of the extra capital
- But credit negative on the face of it as it allows
  - lower required capital with the same risk
  - higher asset risk

**Stable investment yields to drive stable life earnings**

# Reinsurance Profitability: Ride The Price Wave

## Rising Claims driven by Nat Cats

↑ Rising nat cat and weather-related losses



Hurricane Ian



Hailstorm France

Droughts Brazil

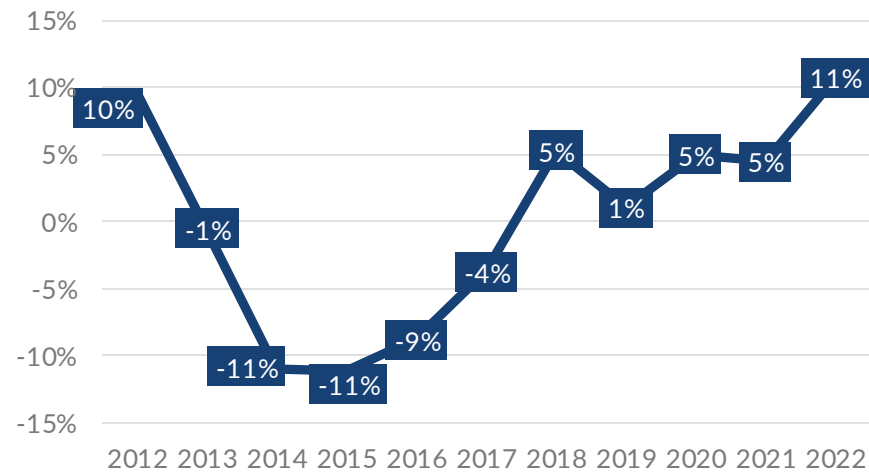


- ↑ Economic inflation
- ↑ Supply chain issues
- ↑ Social inflation - US

## Lack of reinsurance capacity



Reinsurance Pricing 2023: Very Favourable ✓



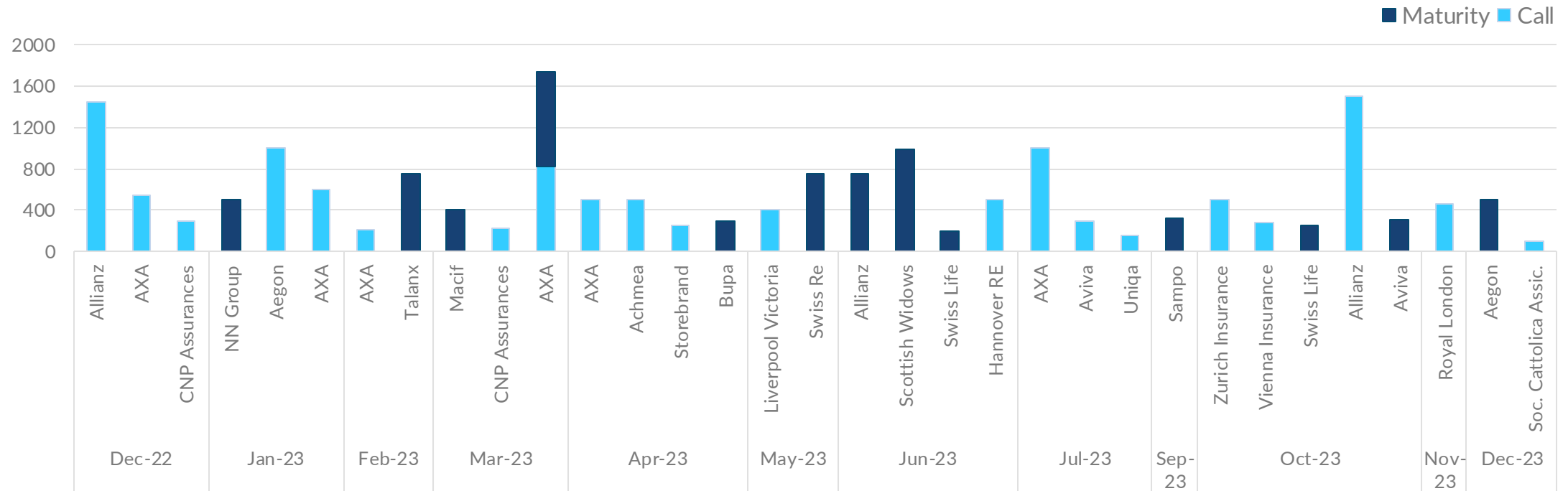
Life Reinsurance: Lower Covid-19 claims ✓

Profitability to be boosted by pricing and drop in Covid-19 claims



# Relative Value: Primary Market Outlook

2023: ~€19 bn debt (euro equivalent) maturing or callable



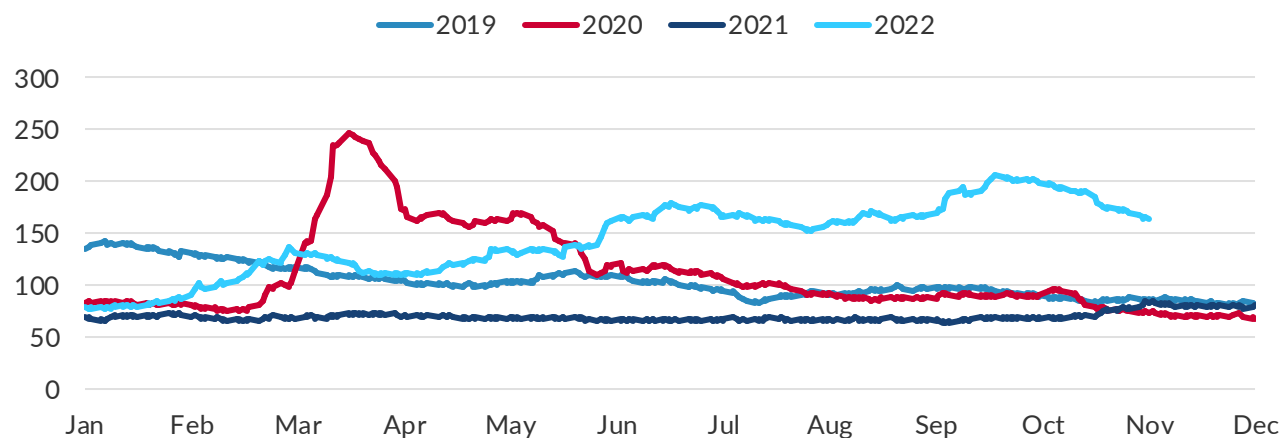
- ~€7 bn debt (EUR equivalent) of debt maturing: 76% Senior and 24% Tier 2
- ~€12 bn debt (EUR equivalent) of debt callable: 53% Perpetual Tier 2, 38% Dated Tier 2 and 9% Tier 1

# Relative Value: Upgrade To Market Perform

## CreditSights European Insurance: Senior and Subordinated upgraded to Market perform in December 2022

- Strong fundamentals
- Wide spreads: negative outlook priced in

IG Euro Insurance Senior OAS History: 2019-2022



European insurance Excess Return Heatmap month-by-month in 2022

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	YTD
EUR Senior	-0.30%	-2.13%	0.77%	-0.39%	-0.13%	-1.80%	1.04%	0.23%	-1.08%	0.28%	1.98%	-1.52%
GBP Senior	-0.74%	-2.40%	0.34%	-1.31%	-0.73%	-2.90%	1.45%	0.43%	-2.61%	2.95%	1.28%	-3.96%
EUR Tier 2	-1.02%	-3.15%	1.97%	-1.94%	-0.69%	-3.35%	2.12%	0.43%	-2.75%	1.01%	3.66%	-3.67%
GBP Tier 2	-1.13%	-2.26%	1.88%	-2.19%	0.16%	-4.71%	2.80%	0.21%	-3.52%	2.93%	3.65%	-2.72%
EUR RT1	-2.17%	-3.81%	3.58%	-3.48%	0.72%	-7.84%	4.07%	1.44%	-8.87%	4.64%	6.63%	-5.92%
GBP RT1	-2.04%	-4.59%	1.88%	-1.67%	-1.35%	-7.93%	2.40%	3.56%	-6.75%	1.01%	6.28%	-9.24%
EUR Tier 3	-0.53%	-1.96%	1.07%	-1.43%	-0.73%	-2.15%	1.06%	0.10%	-1.93%	0.29%	2.95%	-3.12%

# Relative Value: Pick And Pans

Pick - Outperform



Pans - Underperform



This Report is for informational purposes only. Neither the information contained in this Report, nor any opinion expressed therein is intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. CreditSights and its affiliates do not recommend the purchase or sale of financial products or securities, and do not give investment advice or provide any legal, auditing, accounting, appraisal, valuation or actuarial services. Neither CreditSights nor the persons involved in preparing this Report or their respective households has a financial interest in the securities discussed herein. Recommendations made in a report may not be suitable for all investors and do not take into account any particular user's investment risk tolerance, return objectives, asset allocation, investment horizon, or any other factors or constraints.

Information included in any article that includes analysis of documents, agreements, controversies, or proceedings is for informational purposes only and does not constitute legal advice. No attorney client relationship is created between any reader and CreditSights as a result of the publication of any research report, or any response provided by CreditSights (including, but not limited to, the ask an analyst feature or any other analyst interaction) or as the result of the payment to CreditSights of subscription fees. The material included in an article may not reflect the most current legal developments. We disclaim all liability in respect to actions taken or not taken based on any or all the contents of any research report or communication to the fullest extent permitted by law.

Reproduction of this report, even for internal distribution, is strictly prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion or information contained in this report (including any investment recommendations or estimates) without first obtaining express permission from CreditSights. The information in this Report has been obtained from sources believed to be reliable; however, neither its accuracy, nor completeness, nor the opinions based thereon are guaranteed. The products are being provided to the user on an "as is" basis, exclusive of any express or implied warranty or representation of any kind, including as to the accuracy, timeliness, completeness, or merchantability or fitness for any particular purpose of the report or of any such information or data, or that the report will meet any user's requirements. CreditSights may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this Report, and all opinions are reflective of judgments made on the original date of publication. CreditSights is under no obligation to ensure that other reports are brought to the attention of any recipient of the Products.

Certain data appearing herein is owned by, and used under license from, certain third parties. Please see Legal Notices for important information and limitations regarding such data. For terms of use, see Terms & Conditions.

If you have any questions regarding the contents of this report contact CreditSights at [legal@creditsights.com](mailto:legal@creditsights.com).

© 2022. CreditSights, Inc. All rights reserved.