European Insurance Midyear Outlook 2025: Strong Finish Ahead

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This report does not constitute a rating action.

Key Takeaways

- Competition among non-life primary insurers is increasing, despite ongoing motor claims inflation.
- Life insurers, who have recorded some growth in selected markets, continue to move to capital-lighter options but still face capital market risks.
- While reinsurers still benefit from favorable conditions, pricing has started to soften selectively.

Most European life and non-life insurers' margins are robust. Yet life insurers need to provide attractive products, while juggling rising reinvestment rates, unrealized losses on long-dated bond investments, and falling short-term interest rates.

In comparison, primary non-life insurers continue to face elevated but softening reinsurance premium rates and high attachment points, which are constraining margin prospects. While this might have increased profits in years with less natural catastrophes, the rising frequency of floods, hailstorms, and wildfires diminishes the potential upside to profits. Claims inflation in motor insurance remains high.

Overall, European insurers face changes to existing regulations, including the Financial Data Access regulation, the Digital Operational Resilience Act (DORA), and Solvency II. Additionally, they must adapt to new reporting requirements under the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards. Internationally active insurance groups also must transition to the Insurance Capital Standard.

Risk Trends

Due to most European insurers' strong diversification and ample capital surplus against the capital level required to maintain the current ratings, our sector view of the European life and non-life insurance sector is stable. Concretely, our outlooks on 82% of European insurance ratings are stable, after five upgrades year to date.

We do not expect geopolitical risks to abate in the second half of 2025. Even so, we forecast in our base case that operating performance will remain in line with first-half results. While we expect structural risks related to climate change and the transition to net zero will persist over the long term, their adverse effects on the insurance sector are limited since insurers can renew or increase premium rates periodically if necessary.

Since the beginning of the Russia-Ukraine war, the frequency of cyberattacks has increased. That said, we are not aware of any successful cyberattacks that would have posed reputational risks to the insurers we rate. We note, however, that cyberattacks against external suppliers also constitute a threat, because insurers have outsourced many functions to third parties. DORA addresses this risk but adds to insurers' workload.

We expect the rise in the cost of natural catastrophes--including the floods in Central, Eastern, and Southern Europe in 2024--will not materially affect European property and casualty (P&C) insurers' profitability.

Table 1

Top risks for European insurers

	Risk level	Risk trend
Trade conflicts affecting capital markets and insurers' investments	Elevated	Unchanged
Elevated claims inflation	Moderate	Unchanged
Muted top-line growth in life insurance	Moderate	Unchanged
Liquidity risk	Low	Unchanged
Financing conditions for insurance companies/insurance hybrid debt ratings	Low	Unchanged
Structural risks		
Potential increase in disruptions linked to climate change and the energy transition	Elevated	Unchanged
Cyber risks	Elevated	Unchanged

Risk levels may be classified as 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.

Potential stumbling blocks

External challenges such as geopolitical risks related to the various military conflicts within and outside of Europe, as well as tariff announcements and subsequent capital market volatility left the operating performance of many rated European insurers and reinsurers (re/insurers) mainly unaffected. For 2025, our economists expect GDP growth of 0.8% in the eurozone and 0.9% in the U.K. Consumer price index (CPI) inflation is forecast at 1.9% and 3.1%, respectively. We anticipate slightly lower long-term interest rates of 6.5% and expect unemployment in Europe will remain stable at a low 4.6% in 2025.

Non-life insurers

While we rarely view top-line growth as a key aspect in our credit rating analysis of insurers in developed European markets, we closely monitor claims inflation, which exceeded CPI inflation in recent years. Given the negligible effects of recent tariff and geopolitical developments on

CPI expectations, we expect claims inflation will remain the main concern for European primary non-life insurers.

Claims inflation results from higher costs for car parts and garage repairs. In some markets, including the U.K., most motor insurers have already increased premiums to compensate for the rise in claims. In countries such as Germany, however, motor insurers still have some way to go to adjust premium rates.

In addition to claims inflation, primary non-life insurers face high, albeit partially reducing, reinsurance costs and high attachment points. While diversified groups can absorb any negative effects relatively easily, regionally focused peers must pay significantly higher premium rates than before and retain a relatively larger share of regional natural catastrophe risk exposure on their balance sheets.

We do not expect any ratings impact from the tax cuts related to the U.S. administration's budget reconciliation bill, which was signed into law on July 4, 2025.

Life insurers

Life insurers' lapse ratios remain low. This does not come as a surprise, considering the general products' inherent disincentives against lapses, including the loss of terminal bonuses, tax incentives, and insurance cover. Additionally, the payout amount reduces if policies are cashed out early. We believe the currently low unemployment rate in Europe will further reduce the risk of high lapse ratios.

Ratings Overview

Rating actions

European re/insurers' robust performance is reflected in several upgrades year to date, compared with only one downgrade.

June

- We upgraded Convex group's entities to 'A' from 'A-' due to strong underwriting and operating performance. The outlook is stable.
- We upgraded Triglav group's and Sava Re group's core entities to 'A+' from 'A' on improved economic resilience and to reflect their status as government-related entities in Slovenia. The outlooks on both is stable.

April

- We revised the ratings outlooks on MS Amlin AG and MS Amlin Insurance SE to positive from stable because of improved performance.
- We affirmed the 'A+' ratings on Helvetia and Baloise following the merger announcement. The outlooks on both are stable.
- We also affirmed the 'A+' rating on Ageas after the insurer announced plans to buy esure. The outlook is stable.
- We upgraded Allianz SE's Italian subsidiary Allianz SpA to 'A+' from 'A' after we raised the rating on Italy to 'BBB+' from 'BBB'. The outlook is stable.

March

- After revising the ratings outlook on France to negative from stable in February, we revised the ratings outlook on Covea group and its core subsidiary PartnerRe to negative from stable and affirmed the 'AA-' ratings on Covea and PartnerRe. We also revised the outlook on Caisse Centrale de Reassurance to negative from stable.

February

- We upgraded Talanx Primary Insurance Group to 'AA-' from 'A+' to reflect enhanced earnings diversification across regions and lines. The outlook is stable.
- We revised our ratings outlook on AXA group's core entities to positive from stable and affirmed our 'AA-' ratings on the group's core entities to reflect strong financial performance, improving capital adequacy, and resilience to potential sovereign stress.

January

- We downgraded Novis to 'CCC-' from 'CCC' because of further deteriorated credit fundamentals and continued high sensitivity to policyholder lapses. At the time of the downgrade, the rating was on CreditWatch negative.

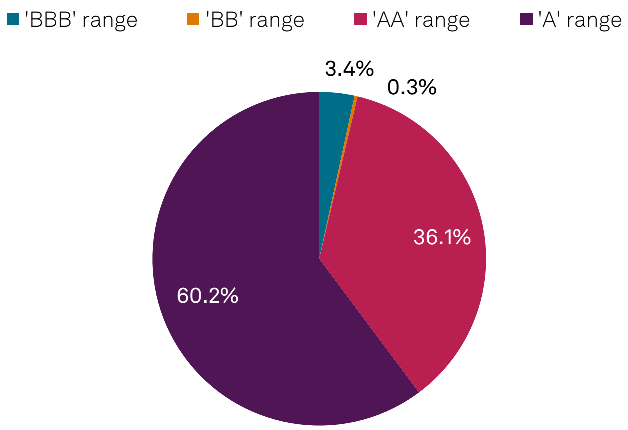
Financial strength ratings

Our financial strength ratings on European insurers are mainly in the 'A' category, while most ratings outlooks are stable. The ratings benefit from a material capital surplus that exceeds the level required to maintain the current ratings.

In addition to the very healthy capital adequacy as per our risk-based capital model, most insurers' regulatory solvency ratios evidence material buffers, compared with the standard capital requirements. We also note that refinancing conditions for European re/insurers have been favorable year to date.

Chart 1

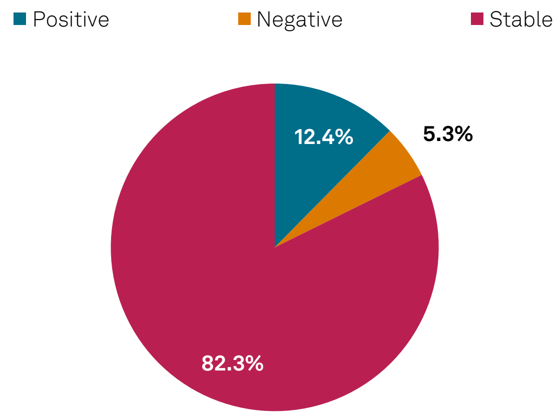
Ratings distribution



Data as of July 17, 2025. Source: S&P Global Ratings.

Chart 2

Outlook distribution



Data as of July 17, 2025. Source: S&P Global Ratings.

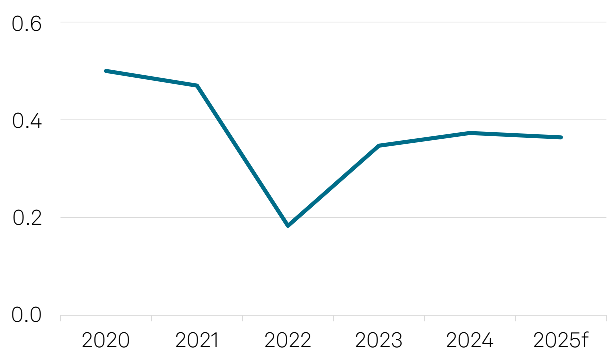
Market Overview

U.K.

Chart 3

U.K.

Return on assets (%)

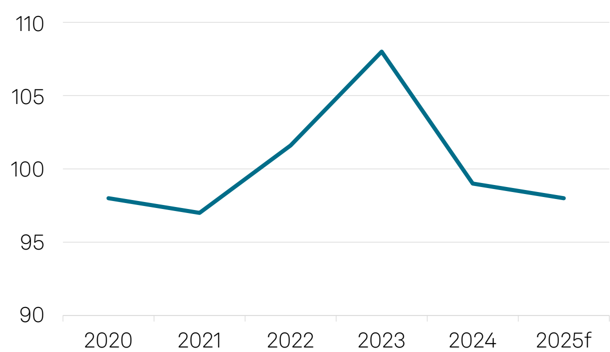


f--Forecast. Source: S&P Global Ratings.

Chart 4

U.K.

Combined ratio (%)



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

Elevated interest rates increase U.K. life insurers' annuity volumes significantly. We expect annuity volumes in bulk and individual markets will be elevated, as higher interest rates have increased the popularity of pension schemes and annuities. The market's concentration on annuities means longevity risk is higher than in continental European markets. On the plus side, however, widening gilt spreads have reduced the capital strain for most life insurers.

Non-life insurers benefit from improved conditions in retail lines. P&C commercial insurers will face more pressure in 2025. Since the market continues to soften and reinsurance rates are still elevated, margins will likely narrow. That said, combined ratios will remain below 100%.

We expect pricing in the retail sector will differ significantly between motor and home lines, with motor insurance prices declining by about 5%. Yet underwriting will remain profitable due to prices increases in 2024. In contrast, home insurance prices will remain elevated, as insurers struggle to keep up with claims inflation. However, significant price increases at the end of 2024 may enable insurers to break even, barring extreme weather events.

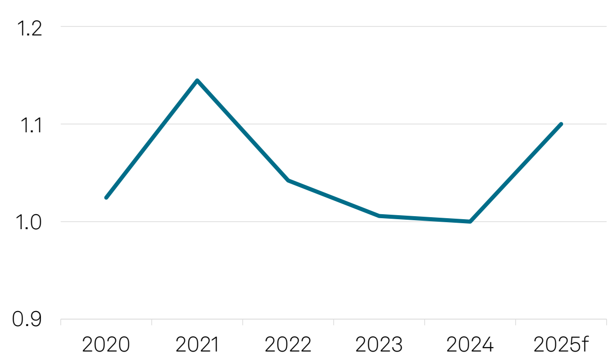
Price comparison websites for motor and home insurance reduce operational barriers and lead to commoditization and increased competition from new entrants.

Germany

Chart 5

Germany

Return on assets (%)

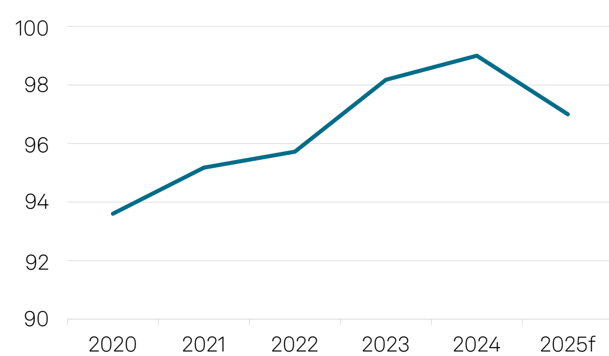


f--Forecast. Source: S&P Global Ratings.

Chart 6

Germany

Combined ratio (%)



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

German life insurers reduce product risk through lower guarantees and asset-liability management (ALM) improvements. We expect life insurers will expand only slightly by 1%-2% over the near term, while profitability will likely remain moderate. German life insurers are phasing out higher guarantees on back book contracts, with average guarantees estimated to have reduced to 1.10% in 2025 from 1.15% in 2024. This reflects positive effects from the additional reserve (Zinszusatzreserve) that German insurers must hold.

Moreover, many life insurers are launching capital-light products with lower or no guarantees and focus on risk-type offerings to reduce their reliance on investment profits. We also note that the ALM mismatch has declined, which has reduced portfolio product risk.

Germany's P&C sector will maintain profitability, despite claims inflation and catastrophe losses. The industry faces challenges from claims inflation, rising losses related to the increasing frequency of natural catastrophes, higher net retention, and high reinsurance costs.

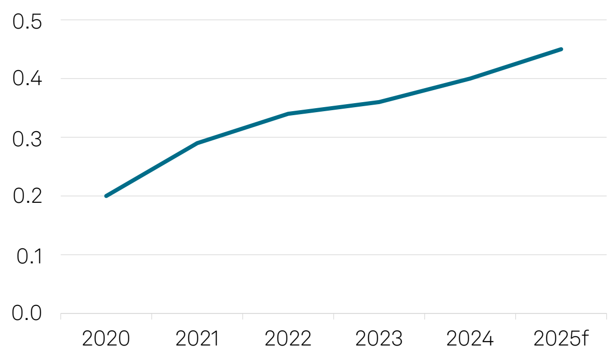
We expect gross premiums will rise 5%-6%, thus outpacing GDP growth. Combined ratios will improve to 95%-98% due to premium adjustments and a steady increase in investment income over 2025-2026.

France

Chart 7

France

Return on assets (%)

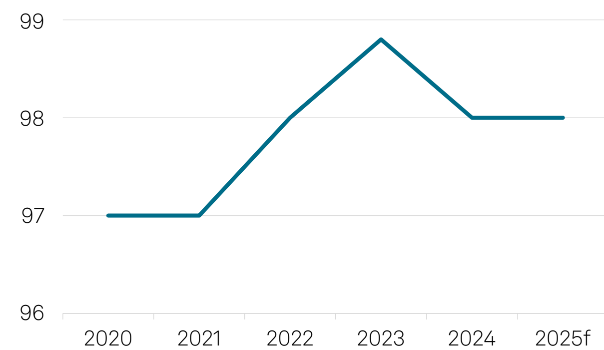


f--Forecast. Source: S&P Global Ratings.

Chart 8

France

Combined ratio (%)



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

The outlook revision on France to negative from stable in February has affected the ratings on insurers that we rate at 'AA-' or above and that we do not consider resilient to a sovereign stress test.

Strong capital buffers and tax benefits support France's life insurance market. We expect premium growth in unit-linked and euro fund products will stabilize at 5% in 2025. The favorable tax regime and waning competition from bank term deposits will continue to increase French households' demand for life insurance.

Overall, the life insurance sector demonstrates ability to generate capital buffers and adjust crediting rates, supported by low guaranteed minimum bonus rates and a strong Solvency II ratio.

French motor lines struggle with profitability amid rising catastrophe costs. We expect price increases will support premium growth and stabilize the net combined ratio at about 99%. Additionally, strong technical performance in commercial lines will offset profitability challenges in motor lines that results from high competition.

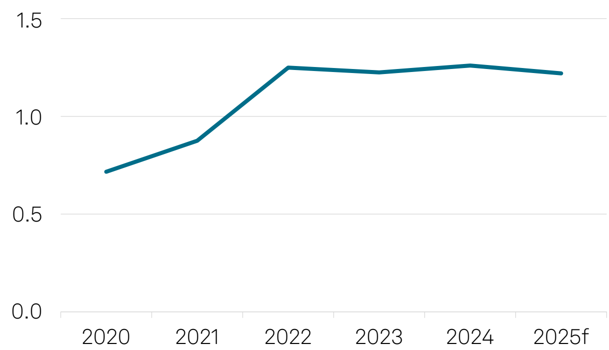
The cost of natural catastrophe claims has increased since the 1990s. France's public insurance scheme serves as a last resort to mitigate the increase in natural catastrophe claims. The public sector's contribution to the state's reinsurance scheme for natural catastrophe risks will increase to about 5% of P&C insurers' gross written premiums in 2025, from 3% in previous years.

Spain

Chart 9

Spain

Return on assets (%)

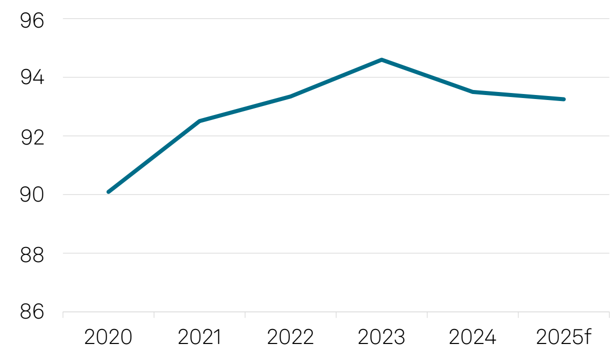


f--Forecast. Source: S&P Global Ratings.

Chart 10

Spain

Combined ratio (%)



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

We expect life insurance premiums in Spain will increase by 2%, which is less than in other Southern European markets. Growth opportunities are limited, because Spanish life insurers provide fewer fiscal incentives for savings through insurance products. Growth in unit-linked insurance products also remains limited.

Yet Spanish life insurers' exposure to interest rate sensitivity is reduced due to effective asset-liability matching. What's more, surrender risk is very limited, as the guaranteed minimum rate is only confirmed at maturity.

We forecast that Spanish P&C insurers will increase premiums by 5%, which will exceed premium growth in the life insurance sector. We expect a combined ratio of 93% because of strong underwriting discipline and prudent risk management. However, claims inflation, especially in the motor and health segments, was high in the past few years.

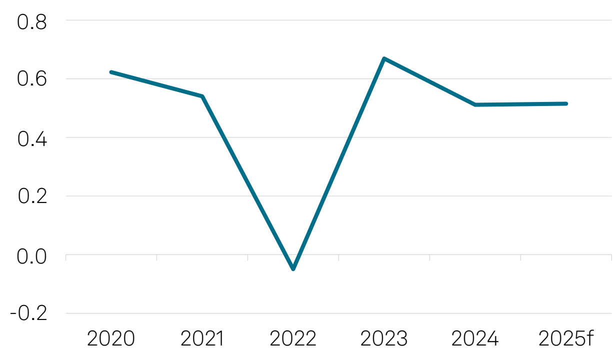
We view positively that a state-owned consortium helps absorb extraordinary catastrophe risks. Additionally, an enhanced regulatory framework improves predictability in motor claims, improving overall market conditions for insurers.

Italy

Chart 11

Italy

Return on assets (%)

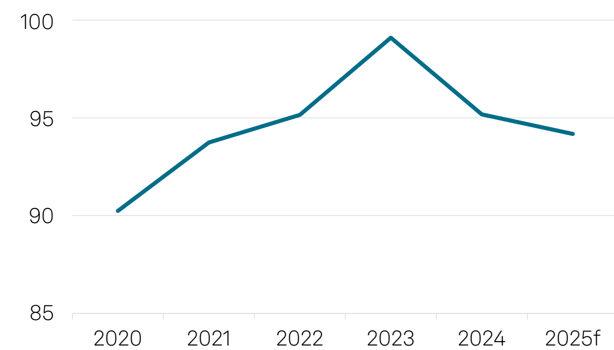


f--Forecast. Source: S&P Global Ratings.

Chart 12

Italy

Combined ratio (%)



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

Unit-linked policies continue to outpace traditional life savings policies. We expect Italian life insurers' premiums will increase by about 6% in 2025. Unit-linked policies will rise 10%, while traditional life savings policies will increase by 5%. Life insurers will benefit from a rise in the return on assets (ROA) on unit-linked products and a decrease in guarantees, with over 60% of policies offering a guaranteed rate of 0%.

That said, life insurers' capacity to manage policyholder crediting rates is limited, while low early redemption penalties contribute to higher lapse rates than in France and Germany.

Non-motor insurance growth and new legislation strengthen Italy's P&C market. We expect Italian P&C insurers' premium growth will exceed inflation at 6%. In our view, the market will maintain underwriting discipline, with a net combined ratio of 94%. The frequency of severe bodily injury incidents in motor insurance remains below pre-COVID-19 levels, helping mitigate rising claims costs.

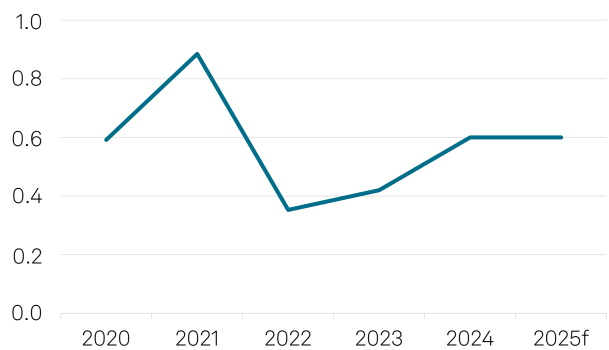
We forecast that non-motor insurance will account for almost 57% of total P&C premiums by 2026, supported by strong performance in general liability. A new law requiring insurance coverage for natural catastrophe claims that will become effective in October 2025 will enhance climate risk protection.

The Netherlands

Chart 13

Netherlands

Return on assets (%)

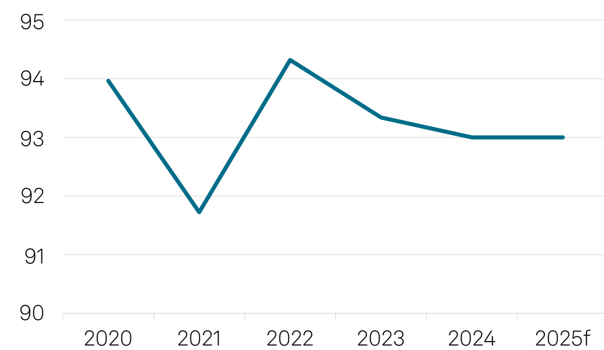


f--Forecast. Source: S&P Global Ratings.

Chart 14

Netherlands

Combined ratio (%)



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

Product risks and banking competition limit growth in the Netherlands' life insurance sector. We forecast that the Dutch life insurance market will stabilize in 2025. We do not expect it to expand significantly due to increased competition from banking products and the lack of demand for unit-linked policies. Elevated product risk persists because of the prevalence of traditional business, significant guaranteed rates in in-force contracts, and longevity risk, which collectively constrain profitability.

For 2025, we expect a ROA of 0.6% for the sector, reflecting the ongoing challenges Dutch life insurers face. The implementation of the Dutch Future Pensions Act reshapes the pension landscape and provides strategic opportunities for pension buy-outs.

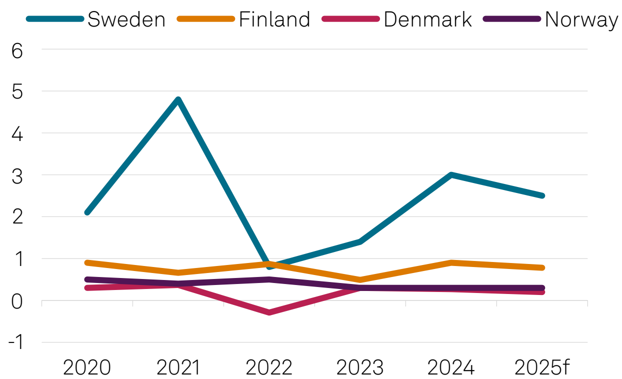
Steady growth and consolidation characterize the Netherlands' P&C insurance market. We expect premiums will increase in line with Dutch GDP growth at 1%-2% and forecast a combined ratio of 93% for 2025. The Netherlands is less exposed than other countries to natural catastrophes, albeit flood risk remains. Market consolidation is increasing, which reduces competitive pressure.

The Nordics

Charts 15

Nordics

Return on assets (%)

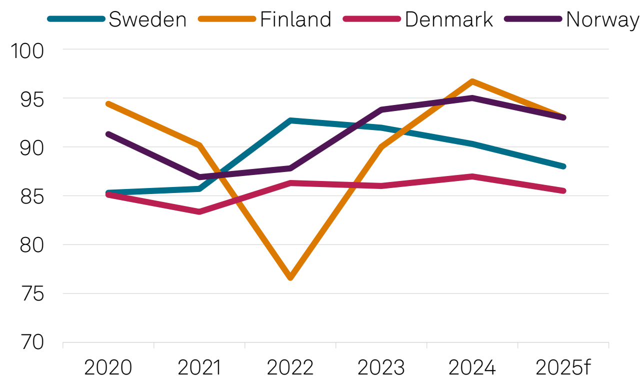


f--Forecast. Source: S&P Global Ratings.

Chart 16

Nordics

Combined ratio (%)



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

Nordic life insurers' unit-linked premiums continue to increase steadily. We expect sustained premium growth through 2025 and forecast that profitability will remain at current levels. This is slightly hampered by lower investment income in 2025. Life insurers, notably those in Sweden and Finland, have swiftly shifted new business to capital-light products that carry less risk than guaranteed products.

The life insurance sector has continued to purposefully streamline its operations and reduce its cost base. Yet we believe the sector is inherently volatile, largely due to a significant appetite for equities and other high-risk assets.

Nordic P&C insurers' prudent underwriting, as well as its robust and resilient capital positions, will last. We expect demand for P&C insurance will be sustained throughout 2025, while technical profitability will improve. The sector faces pressure from inflation and increasing claims frequency, especially in motor lines and accident and health insurance. That said, Nordic non-life insurers were able to increase premiums to mitigate the negative effects of rising costs.

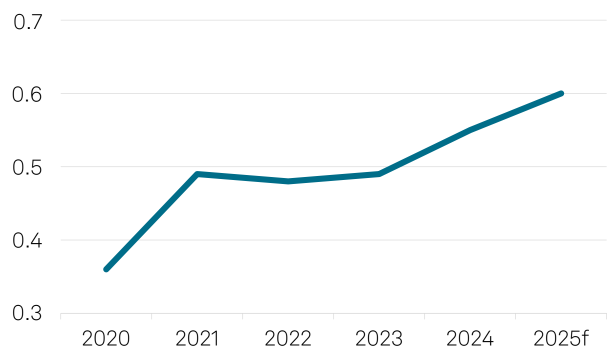
In our view, the sector's disciplined underwriting and exceptional cost efficiency will last. We anticipate that capitalization will remain strong.

Switzerland

Charts 17

Switzerland

Return on assets (%)

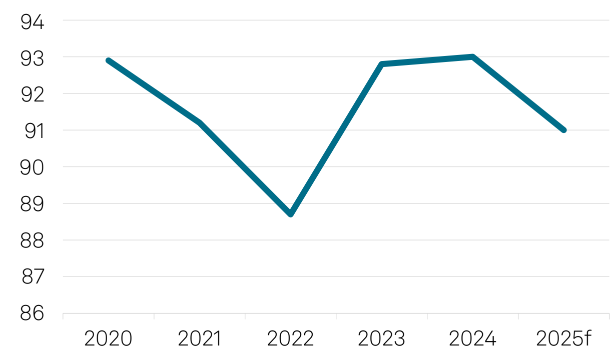


f--Forecast. Source: S&P Global Ratings.

Chart 18

Switzerland

Combined ratio (%)



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

Swiss life insurers shift to higher-margin semi-autonomous products. Switzerland's life insurance market is transitioning to higher-margin semi-autonomous products that are less interest rate-sensitive. We expect Swiss life insurers will maintain profitability, with pre-tax ROA improving to 0.6%-0.7%.

We forecast that an increase in premiums from individual life products will offset declines in the group life business and stabilize gross premiums growth in 2025. Overall, Swiss life insurers invest more in real estate than their P&C peers to generate long-term rental income and liquidity. Since most assets are in Switzerland to ensure consistent returns, asset concentration is a potential risk.

We predict that growth in the P&C market will continue to outpace Switzerland's GDP growth. We forecast that premiums will rise 2.5%-4.0% in 2025, compared with GDP growth of 1.0%. The increase in premiums results from pricing adjustments to counter inflation and higher reinsurance costs.

We expect Swiss P&C insurers will maintain a combined ratio of 91%-93% in 2025, as natural catastrophe claims stabilize. Natural catastrophe claims in Switzerland are intensifying in both severity and frequency, particularly due to floods and storms. That said, Swiss P&C insurers benefit from robust loss prevention strategies, particularly in the case of flood risks. For example, a loss-sharing pool enhances market resilience and mitigates claims volatility.

Related Research

- Convex Group Entities Upgraded To 'A'; Outlook Stable, June 25, 2025
- Triglav Group's Core Entities Upgraded To 'A+' On Improved Economic Resilience; Outlook Stable, June 11, 2025

- Sava Re Group's Core Entities Upgraded To 'A+' On Improved Economic Resilience; Outlook Stable, June 11, 2025
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- Solid Earnings Momentum For Global Multiline Insurers Continues, May 23, 2025
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- 'A+' Ratings On Helvetia And Baloise Affirmed Following Announcement Of Planned Merger; Outlook Stable, April 23, 2025
- EMEA Insurers Ratings List: Financial Strength Ratings And Scores, April 22, 2025
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- Belgium-Based Ageas SA/NV 'A+' Ratings Affirmed On Agreement To Acquire esure; Outlook Stable, April 17, 2025
- Tariffs Put European Re/Insurance Ratings To The Test, April 9, 2025
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- Caisse Centrale de Reassurance Outlook Revised To Negative After Same Action On France; 'AA-' Ratings Affirmed, March 5, 2025
- AXA Group Outlook Revised To Positive On Expected Capital Strengthening And Profitability Growth; 'AA-' Ratings Affirmed, Feb. 25, 2025
- Talanx Primary Insurance Group Upgraded To 'AA-' On Enhanced Diversification And Earnings Resilience; Outlook Stable, Feb. 5, 2025
- PartnerRe Upgraded To 'AA-' On Core Group Status To Covéa Cooperations; Covéa Core And Guaranteed Subsidiaries Affirmed, Jan. 27, 2025
- NOVIS Insurance Co. Rating Lowered To 'CCC-'; On CreditWatch Negative And Separately Withdrawn At Issuer's Request, Jan. 24, 2025
- European Insurance Outlook 2025: Holding Up Well, Nov. 21, 2024

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