

# Global Insurance Markets: **Alive And Kicking**

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**S&P Global**  
Ratings

*This report does not constitute a rating action*



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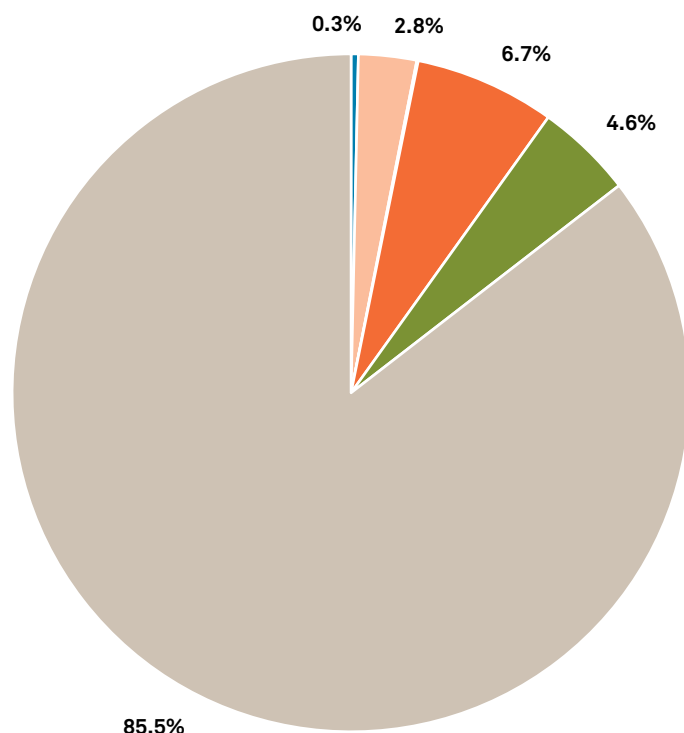
# Key Takeaways

- After a sharp decline in economic output, **real GDP is rebounding strongly in 2021. This should continue in 2022, albeit at a slower rate.** Real GDP growth should outpace premium growth in most markets, notably developed ones.
- The recent emergence of the **Omicron variant raises concerns** around the pace of economic recovery as well as the performance of capital markets.
- If the uptick in **inflation in 2021-2022** proves not to be transitory, it **could hurt insurers' profitability**, chiefly those with **longer-tail liabilities** without the ability to adjust pricing and pass on the increased costs to policyholders.
- Following **lockdown-induced improvements** in loss ratios last year, we expect **property/casualty (P/C) insurers' technical performance to return to pre-pandemic levels** over 2022.
- P/C markets with strong performance typically display characteristics of **prudent underwriting with disciplined pricing, strong distribution channels, and digitization.**
- The increased importance and **awareness of health and wellbeing** following the pandemic should support life and health premium growth prospects.
- **Low interest rates** remain a key risk for life insurers, particularly those exposed to **high guarantees.**

# Global Insurance Outlook | Well Placed For 2022 Challenges

## Most Of Our Rated Insurers Benefit From A Stable Outlook

■ CW Developing ■ CW Negative ■ Negative ■ Positive ■ Stable



CW--CreditWatch. Outlook/CreditWatch distribution as of Nov. 26, 2021. Source: S&P Global Ratings.

- We continue to maintain a negative outlook on a few sectors, including the global reinsurance and Latin American sectors.
- Negative outlooks and negative CreditWatch placements affect a few insurers, in most cases because of M&A-related activity, or ongoing capital pressures. Certain issuers also need to restore satisfactory profitability levels.

### Areas We Are Watching With Increased Focus

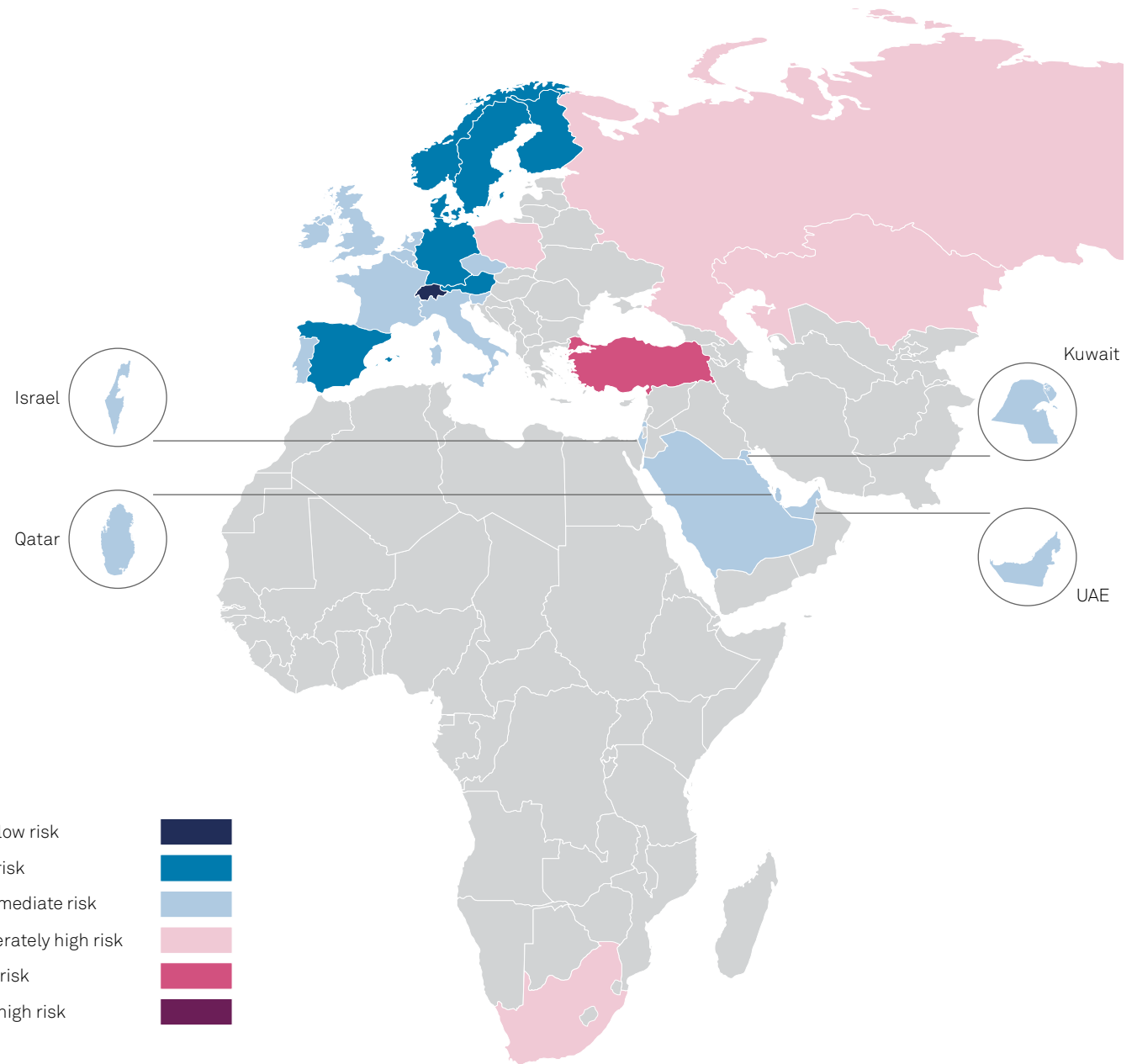
- The potential impact of inflation on claims cost and reserve adequacy, especially on longer-tailed lines.
- How intense competition is, and what effect that has on profitability.
- Increases in asset risk appetite triggered by quantitative easing measures.
- Exposure to risks from the downgrading of corporates and banks.
- Extent to which increased awareness of insurance can be converted into sales and maintained post pandemic.



# Top Risks For The **Global Insurance Sectors**

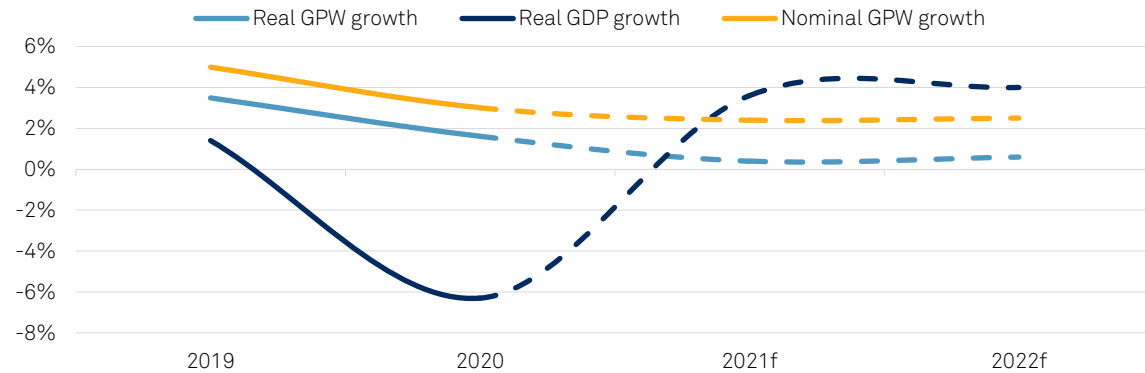
<b>Risk Category</b>	<b>Description</b>
Investment performance risk	Capturing financial markets risks, including interest rates, mark to market, and asset quality.
Exposure to high-risk assets	High-risk assets typically include equities (listed and unlisted), real estate, fixed-income investments or deposits in institutions that are rated 'BB+' or lower, and unrated bonds and loans.
Country risk	Risk factor taking into account considerations such as macroeconomic risk, sovereign rating limitations, geopolitical, and rule of law risks.
Intense competitive environment	Whether the market is concentrated with a few players or contains a high number of smaller ones, an intense competitive environment could lead to price wars and hurt profitability.
Muted market growth prospects	The lack of potential for premium growth in a market, either because it is mature or due to adverse macroeconomic conditions, with high inflation resulting in near-zero (or negative) real growth.
Weak technical results	An industry where technical performance, typically measured by combined ratios (non-life) and return on assets (life) is loss-making.
Exposure to natural catastrophes	Markets with material exposure to climate risk, notably, earthquakes, hurricanes, and other natural disasters.
Litigious legal system	A sector where litigation often leads to lengthy court cases, increasing the tail of an insurer's liabilities, and consequently, resulting in unpredictable claims settlements.
Government and regulatory policy risks	Markets exposed to changes in government or regulatory policies, often resulting in material impacts on insurers' business models and/or profitability.
Foreign exchange impact	Reflects the impact foreign exchange risks could have on profitability.
Other	Risk classification that does not fit any of the 10 categories described above.

# EMEA P/C

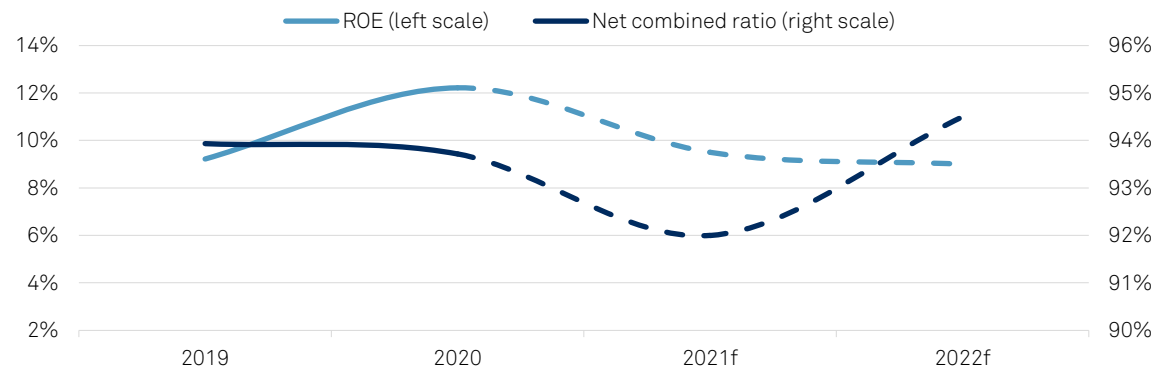


# Austria P/C | Sound Profitability Somewhat Offset By **Limited Growth Opportunities**

## GPW Growth Mainly From Premium Adjustments And Some Selected Growth Opportunities



## Strong Returns And Technical Performance



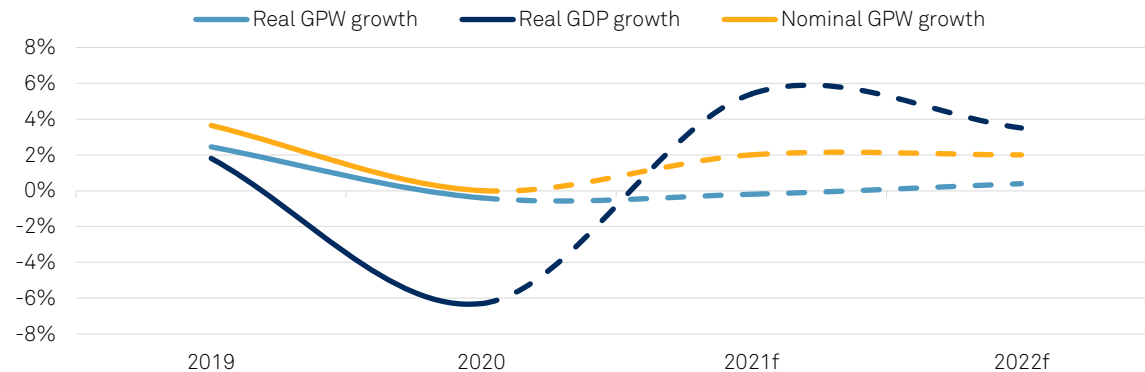
- **Sound underwriting profitability**, despite pandemic-related disruption.
- The **mature stage of the market** offers relatively **limited room for growth**, though there are some opportunities across certain lines of business, such as cyber and legal expenses.
- Going forward, we expect **combined ratios to normalize from extraordinary levels** in 2020 and 2021. Indeed, combined ratios are likely to remain in line with the five-year average of 93%-95% over the next two years.
- **Mild improvement in profitability** in 2020 mainly reflects the motor and accident lines, which benefitted from **lockdown measures**. This was partly **offset by business interruption** and credit insurance claims.
- **Moderate exposure to natural catastrophes**, although adequate pricing and reinsurance cover key risk exposures.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

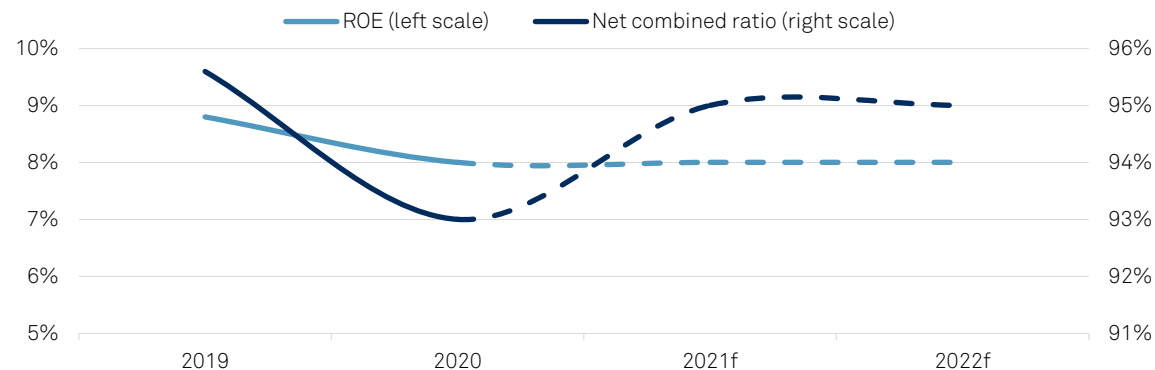


# Belgium P/C | Underwriting Discipline, With **Some Exposure To Weather Events**

## GPW Growth To Remain Flat In Real Terms



## Profitability To Remain Stable In The Absence Of Major Catastrophe Losses

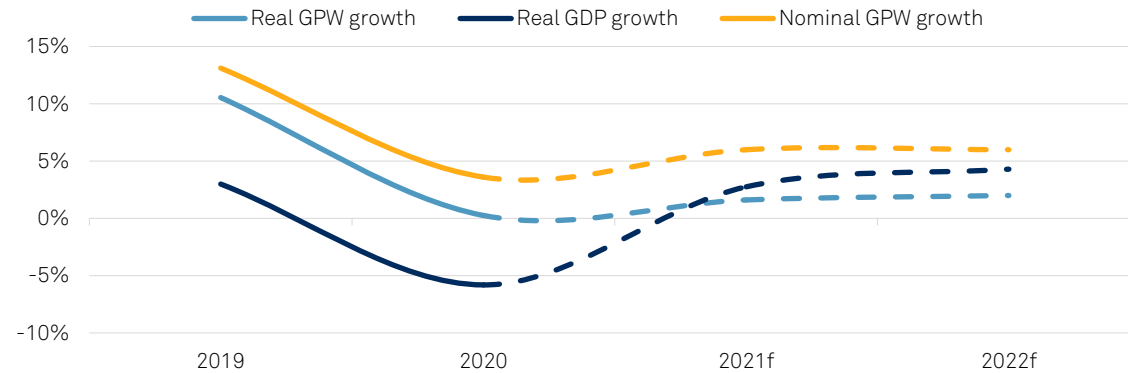


- Generally **stable loss ratios**, supported by **underwriting discipline** and comprehensive reinsurance cover.
- **Flood events** from the summer of 2021 expected to **cost the industry around €2.1 billion** in claims, pressuring technical performance.
- The P/C sector is **exposed to winter storms** and does not have a central mechanism in place to cover catastrophic events.
- The **economic recovery** should support mild real premium growth.

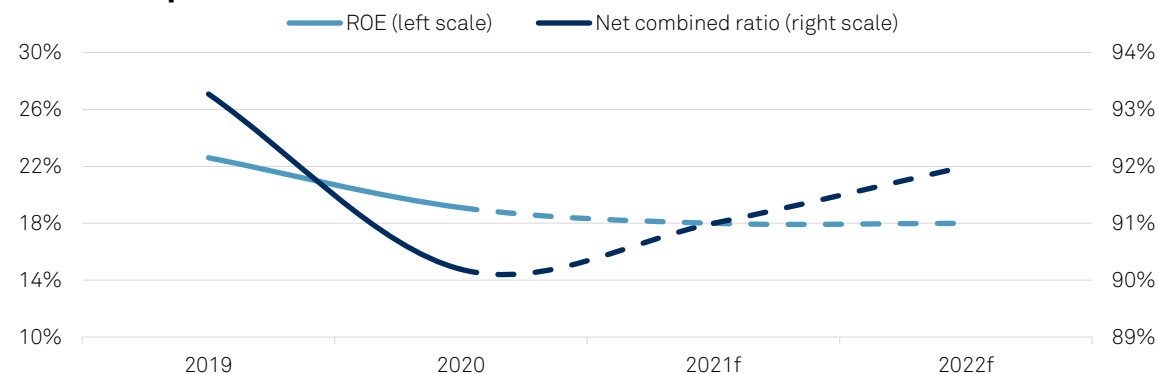
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—Forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Czech Republic P/C | Profitability Among The Strongest And Most Stable In Europe

GPW To Develop In Line With GDP, Reflecting Price Increases Following 2021 Catastrophe Events And General Claims Inflation



Medium-Term Profitability To Remain Strong, Despite A Heavy Catastrophes Season In 2021

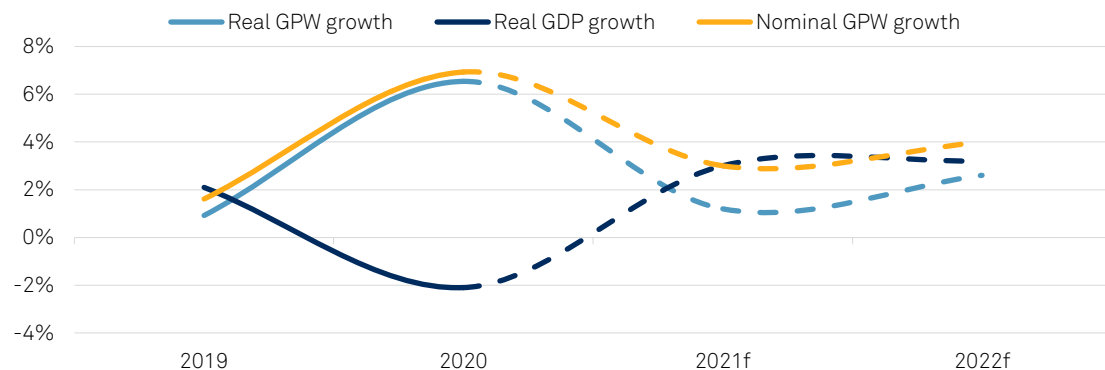


- **Very profitable activities** above the European average, with limited exposure to pandemic-affected lines, further boosted by lower loss experience in motor.
- **Large storm events** of summer 2021 expected to **cost the industry around €225 million** (CZK5.6 billion) in claims, but to be largely absorbed by good reinsurance protection.
- We expect the sector to continue to display **generally prudent underwriting, maintaining stable technical profitability in 2022** and remaining above the European average.
- **Changes in 2020 reserve taxation** did not immediately affect sector performance; however, insurers' future **underwriting results could become more volatile**.
- **Asset risk remains relatively low** as the insurers predominantly invest in local government securities.
- Although the market is relatively concentrated, it can observe **intense price competition in obligatory motor insurance**, while **property lines are generally stable and very profitable**.

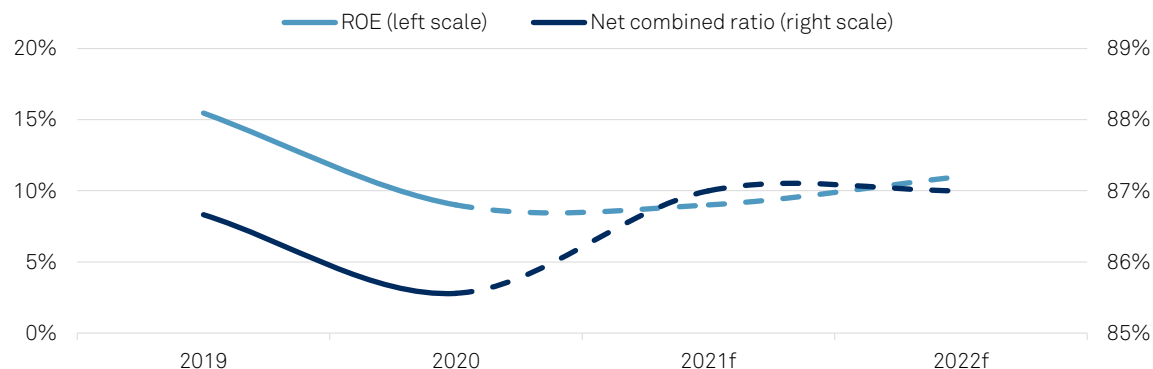
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. CZK—Czech koruna. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings. Czech insurers are composite players, as such ROE reflects combined life and non-life operations.

# Denmark P/C | Among The Strongest Performers Globally

## Significant Premium Growth In 2020 Despite The Pandemic



## Stable And Strong Profitability Likely To Remain A Key Characteristic Of The Market



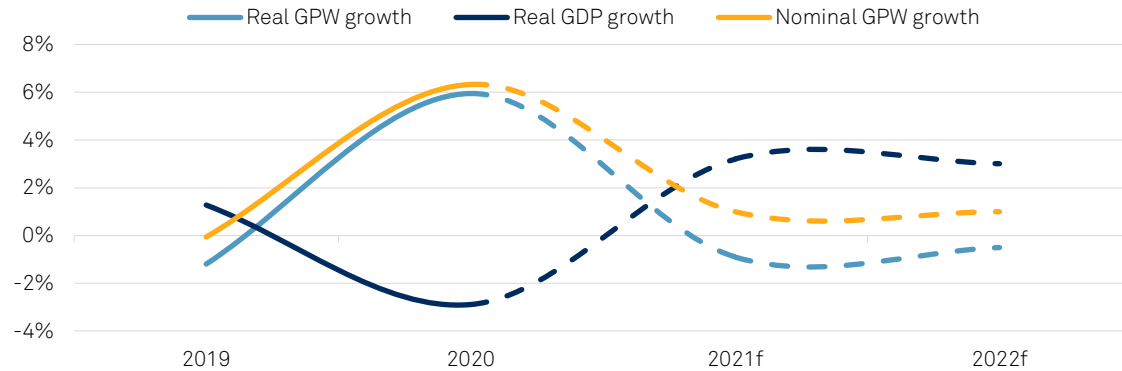
- **Despite weaker economic conditions** in Denmark owing to the COVID-19 outbreak, the **sector experienced very strong premium growth**, notably in motor, accident, and health insurance.
- **Lower interest rates still weigh on investment income**, although underwriting results will continue to result in strong profitability.
- **Moderate exposure to natural catastrophes** remains the primary cause of large claims and loss volatility.
- **Certain long-tailed lines of business**, such as workers' compensation, **could result in some volatility**, notably in the event of legislation changes.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

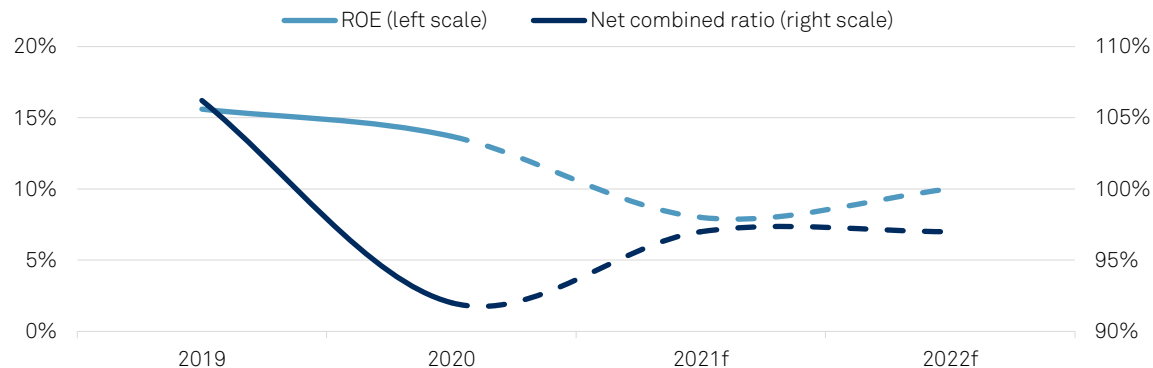


# Finland P/C | Robust Profitability, **Although Not As Strong As Its Nordic Peers**

## GPW Growth To Be More In Line With GDP



## Strong Cost Efficiency Contributes To The Sector's Profitability

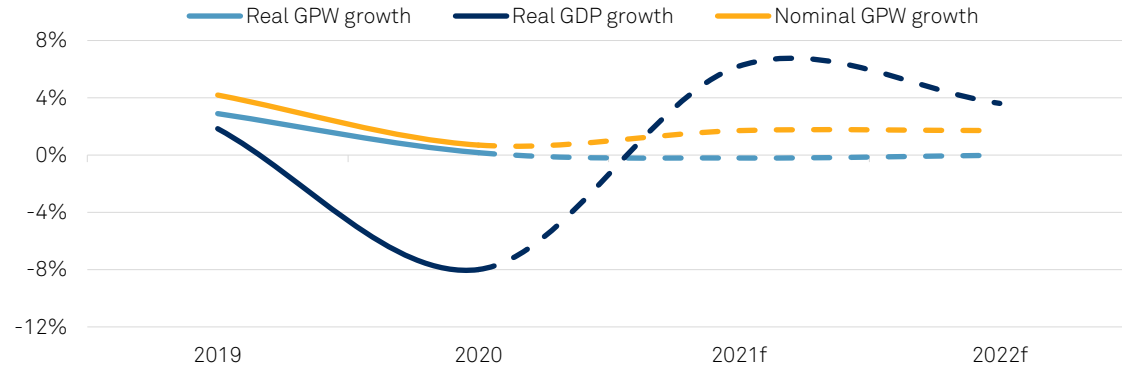


- **The sector enjoys robust profitability**, mainly due to lower claims frequency in light of the COVID-19 pandemic and healthy investment results.
- We expect ROE will **return to pre-pandemic levels** in 2021-2022.
- Exposure to **catastrophe risk is lower than in Nordic countries**, although some volatility could arise from the high proportion of long-tailed workers' compensation and motor business.

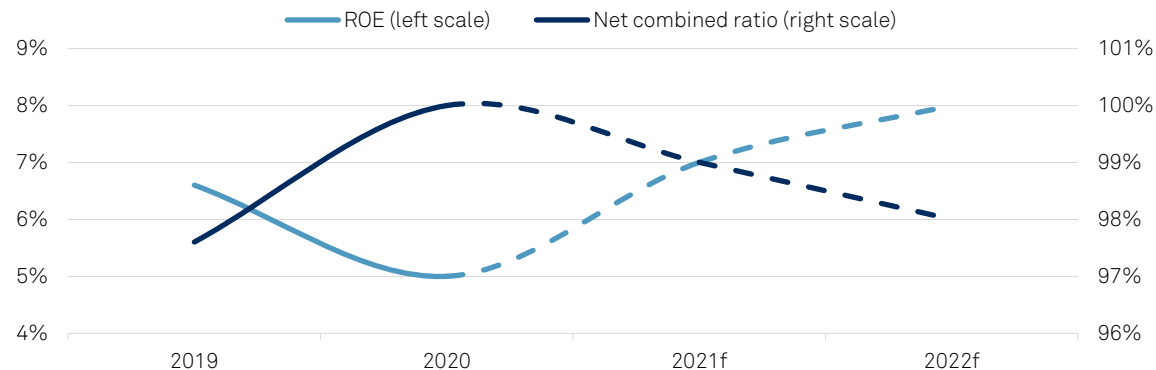
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# France P/C | Improved Technical Profitability, But Strong COVID-19 Impact

We Expect Premium Growth To Stagnate In Light Of The Current Uncertain Environment



We Expect The Sector To Maintain Its Underwriting Discipline

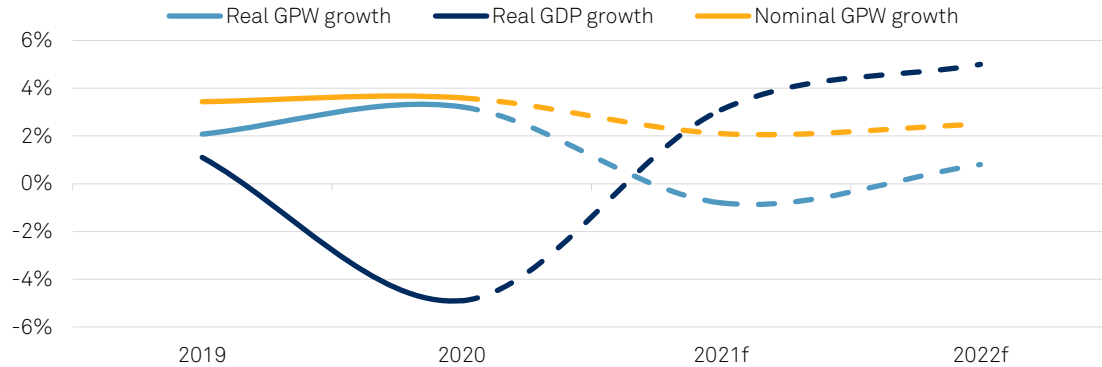


- We project a **growth rate below the historical average** to reflect the difficult economic environment.
- We expect the sector to **maintain its underwriting discipline**, but **unfavorable economic conditions and pandemic-related losses** could lead to an overall 5% negative impact on the combined ratio.
- While the calendar year **combined ratio appears weaker than peers**, we believe this reflects a **generally prudent reserving policy**, as indicated by technical reserve redundancies.
- **Exposure to natural catastrophes** and man-made events is materially **mitigated by the combination of state schemes** and privately placed reinsurance.

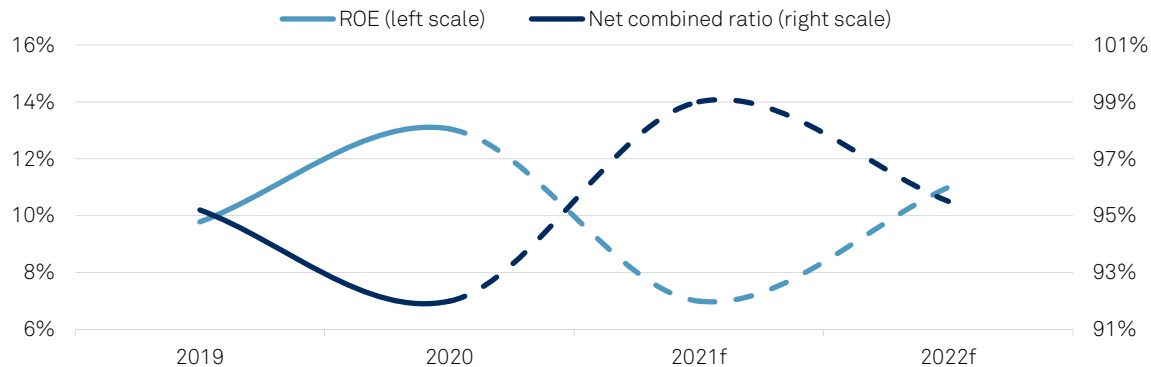
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Germany P/C | Healthy Technical Performance **Despite Weather Events In 2021**

## The Economic Recovery Should Support GPW Growth



## Steady Technical Profitability Fuelled By Underwriting Discipline



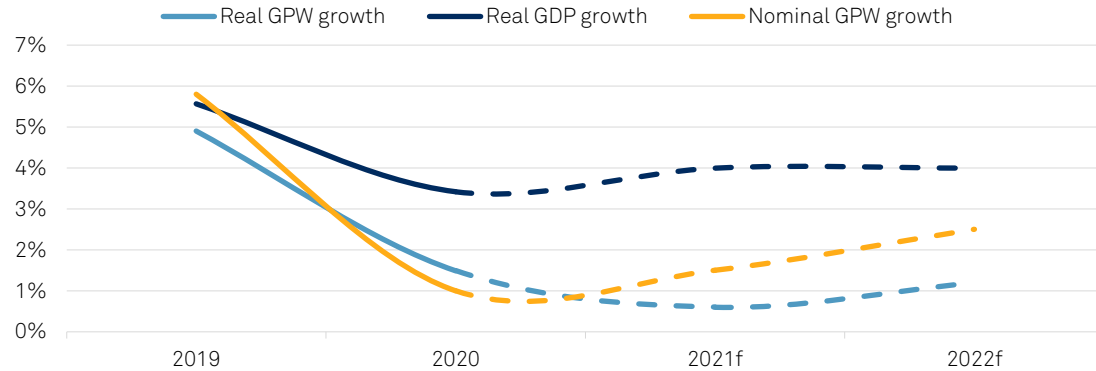
- German insurers face **much higher natural catastrophe losses this year**, mainly driven by the low-pressure system "Bernd".
- Some of the worst weather in decades hit Germany in June and July, and we believe P/C insurers are likely to register **very high natural catastrophe losses**, although the magnitude is still unclear as the disaster unfolds.
- If natural catastrophe losses reach €10 billion for 2021, **we expect the gross combined ratio to increase to about 102%**.
- Ongoing **pricing discipline** should continue to **offset low interest rates** in the medium term.
- **Lower claims** amid limited economic activity **in 2020 more than offset COVID-19-related claims** from business interruption, event cancellation, and credit insurance.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

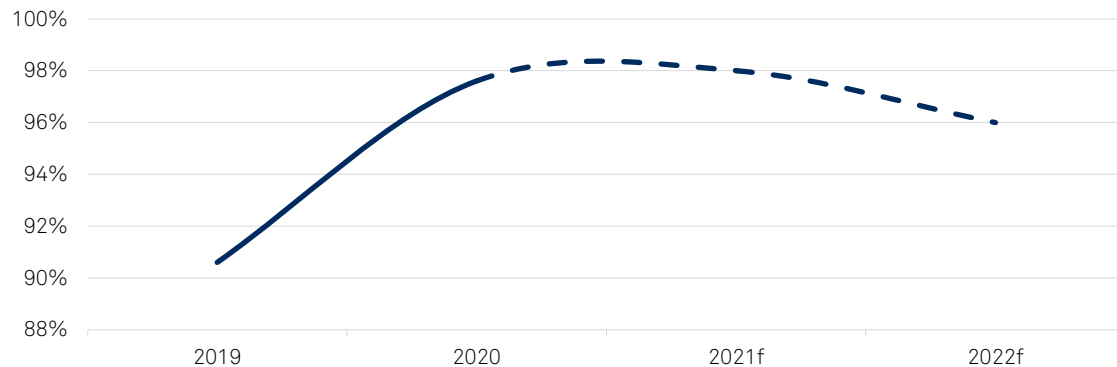


# Ireland P/C | Improved Underwriting Discipline, Offset By COVID-19-Related Claims

## Premium Growth To Moderate Following A Recent Period Of Strong Growth



## COVID-19-Related Claims To Depress Net Combined Ratios

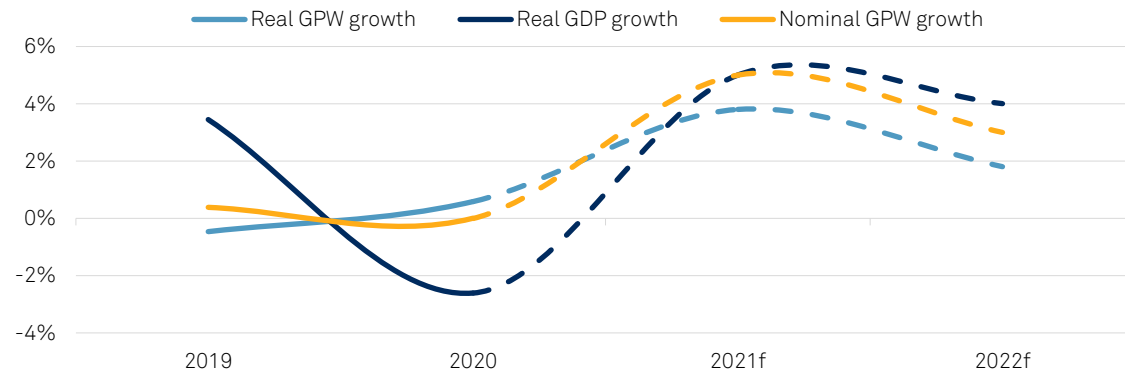


- After a period of severe claims inflation, underwriting performance has improved in recent years thanks to **major rate hikes in key lines of business**.
- The sector was **exposed to COVID-19 claims in 2020**, notably relating to business interruption (BI). We expect underwriting performance in the P/C industry to **remain constrained in 2021**, as litigation on COVID-19-related BI claims from last year remains ongoing.
- We expect underwriting performance in 2022 to converge to pre-pandemic levels.
- Ireland has a **litigious market that is prone to unpredictable claims settlement**, which results in some product risk.
- The sector's **exposure to natural catastrophe** events, such as flooding and freezing, is unlikely to result in material volatility because **these risks are adequately reinsured**.

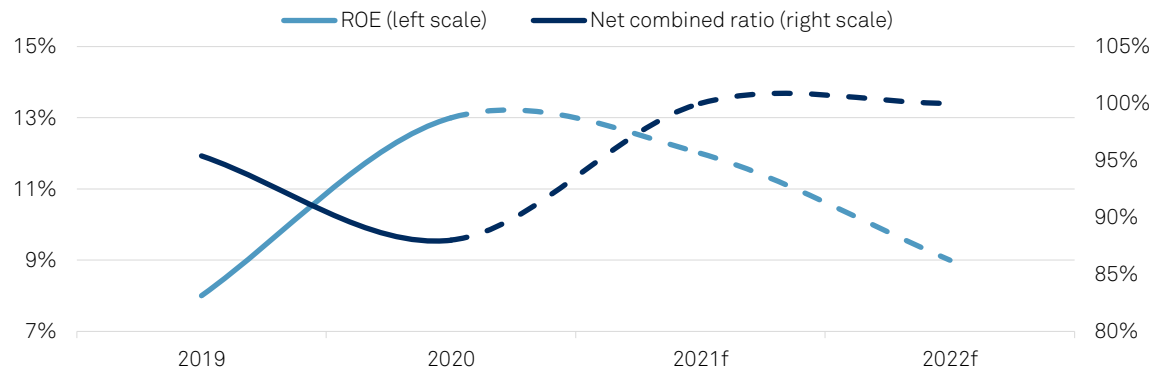
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. The forecast 2022 combined ratio of 96% represents the midpoint of our forecast range 95%-97%. Source: S&P Global Ratings.

# Israel P/C | Modest Premium Growth Potential Amid Challenging Operating Environment

## Limited Premium Growth Prospects Through To 2022



## Underwriting Profitability To Somewhat Deteriorate Over 2021-2022

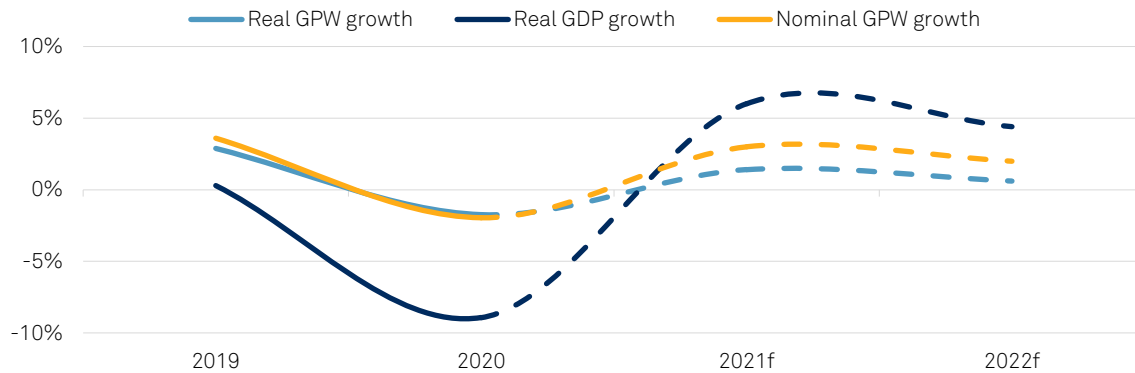


- **COVID-19-induced** lockdowns and lower claims frequency resulted in **enhanced technical results in 2020**. We expect **performance in 2021-2022 to normalize**, amid intensifying competition.
- Excluding the 2021 rebound in premium growth, we expect that fierce competition, especially in motor and property, will **continue to affect pricing**, limiting premium growth prospects.
- **Investment income** remains an **essential component** of the Israeli P/C sector's profitability, often **compensating for the technical losses** from long-tail liabilities lines.
- **Long-tail policies** represent around 40% of premiums, **exposing Israeli insurers to some product risk**, notably relating to unpredictable settlements and interest rates movements.

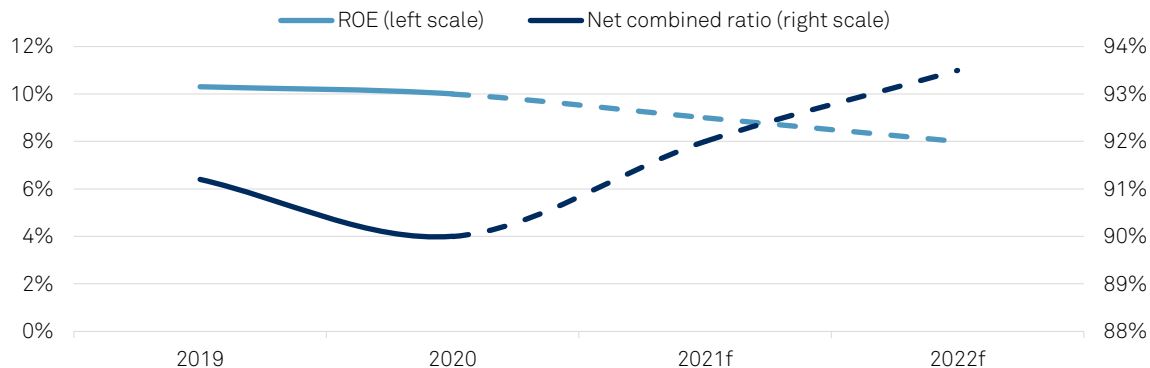
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Italy P/C | Disciplined Underwriting Supports **Stable Operating Performance**

## We Expect Premium Growth Will Roughly Correlate With GDP



## Sound Profitability Likely To Persist Through To 2022



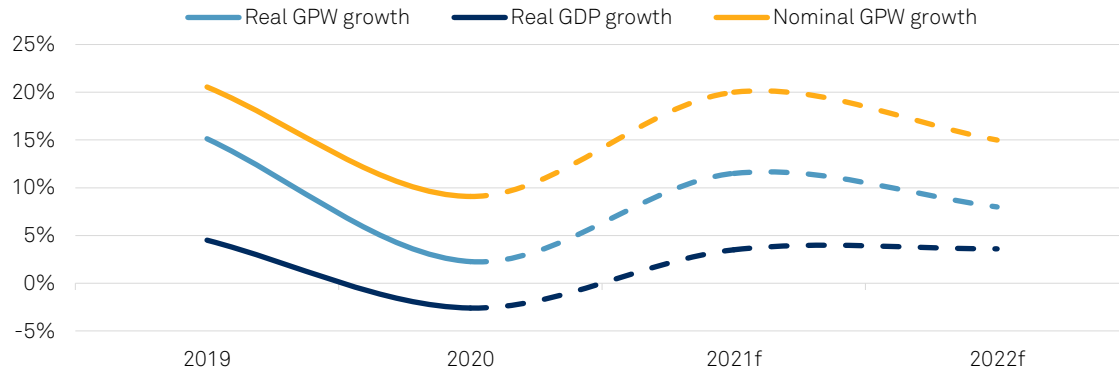
- We project **some deterioration in combined ratios** over 2021-2022, following **one-off benefits from lockdown measures** last year. Combined ratios should remain below 95%, however.
- **Non-motor performance** continues to enhance the sector's profitability.
- Insurers' **pricing policies** have become much **more sensitive to policyholders' risk profiles** and behaviors, minimizing product risk.
- The P/C sector has **low exposure to natural catastrophe risk**, as households are generally not covered for these risks.
- Unlike in France or Spain, for example, **Italy does not have a government-sponsored scheme to cover those risks** in an affordable way.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

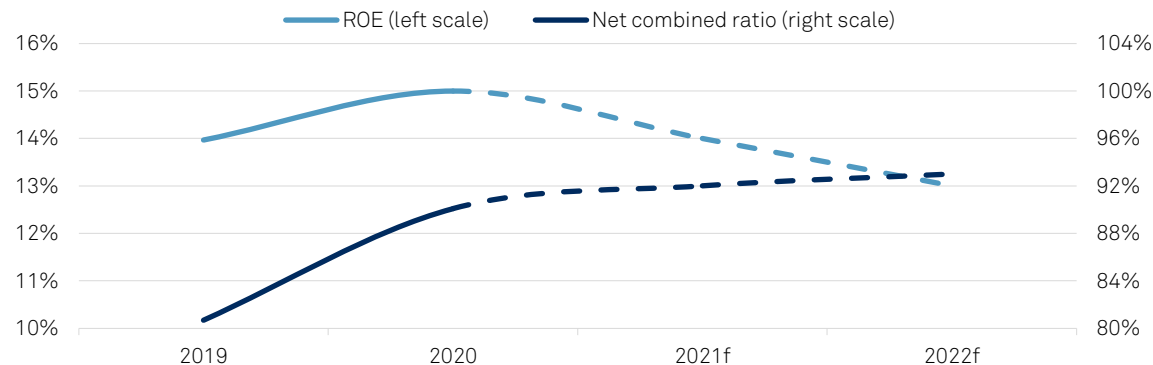


# Kazakhstan P/C | Strong Profitability Despite **Increasing Combined Ratio**

## We Expect Double-Digit GPW Growth in 2021



## Kazakh P/C Insurers' Profitability To Remain Strong Over 2021-2022

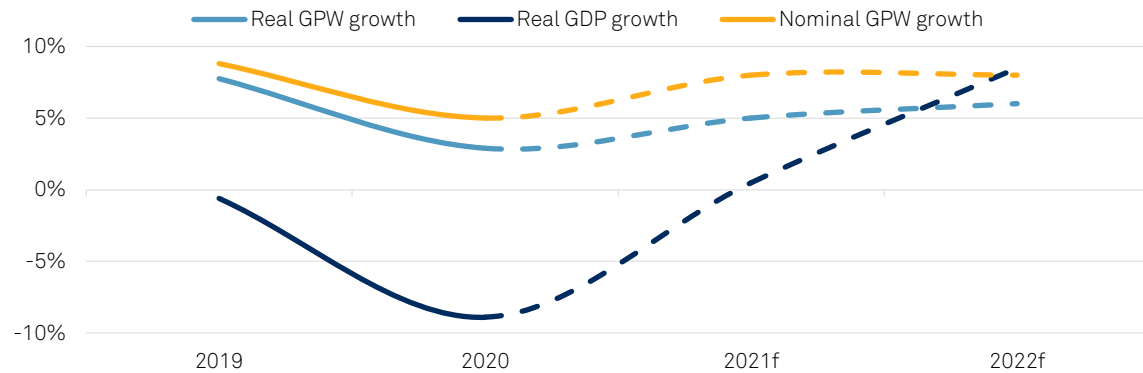


- We expect **double-digit GPW growth** in 2021, compensating for the stagnation during the pandemic in 2020. That said, P/C insurance penetration will remain low in Kazakhstan in view of the **population's still-evolving financial literacy**.
- Although **performance will likely remain strong overall**, we expect an increase in combined ratios due to currency depreciation, which results in increases in spare car part costs.
- **Solid investment income** on the back of increasing interest rates in Kazakhstan will likely support local insurers' profitability.
- While Kazakhstan is prone to **natural catastrophes**, notably earthquakes, the penetration and **retention level on those risks is low**, limiting the potential for earnings volatility.

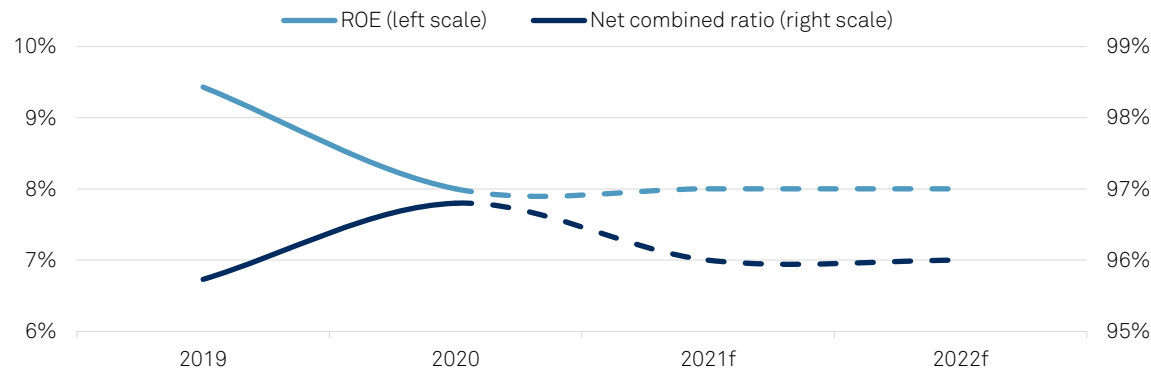
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Kuwait P/C | Among The Fastest Growing Markets In The Region, Although Macroeconomic Uncertainties Could Slow The Pace

## The Underdeveloped Sector Offers Good Opportunities For Premium Growth



## We Expect Profitability To Remain Relatively Stable

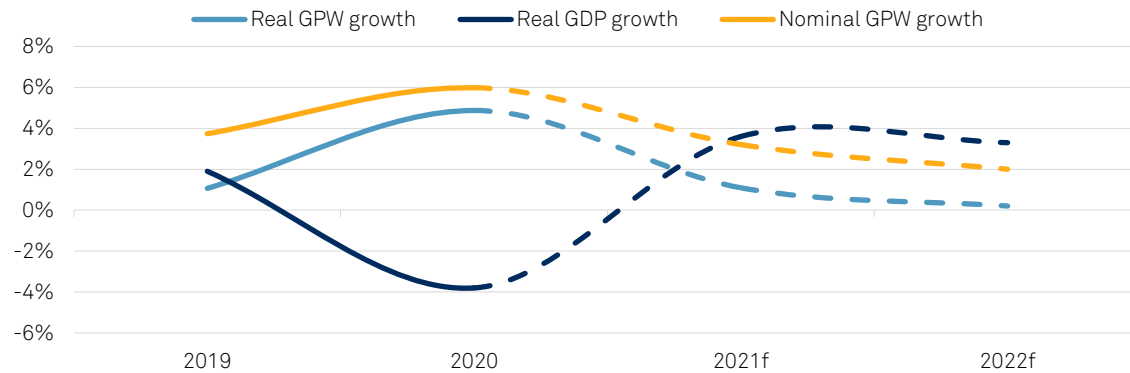


- Upcoming infrastructure projects, as well as various government initiatives, notably in health insurance, should **increase demand for insurance, supporting premium growth.**
- Technical performance benefits from **lucrative commissions received** from ceding big-ticket commercial business to the international markets.
- While investment income enhances ROE, the **high exposure to risky assets** such as equities and real estate, is a source of earnings volatility.
- We view Kuwait's institutional framework as relatively weak, but the recent introduction of a **new insurance law** should **strengthen the market's** discipline.
- Insurance products in Kuwait are generally short-tail and have predictable claims settlements, which are resolved within 12 months of being reported. **Hence, product risk is low.**

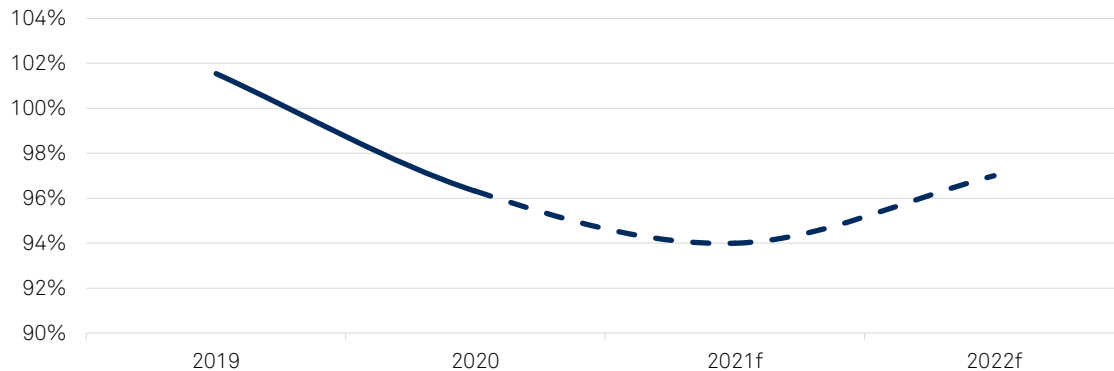
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Netherlands P/C | Improving Profitability, Though Still **Weaker Than Peers**

## Real GPW Growth To Correlate With GDP Growth



## Improved Pricing And Lower Claims, Particularly In 2020, Improved Combined Ratios

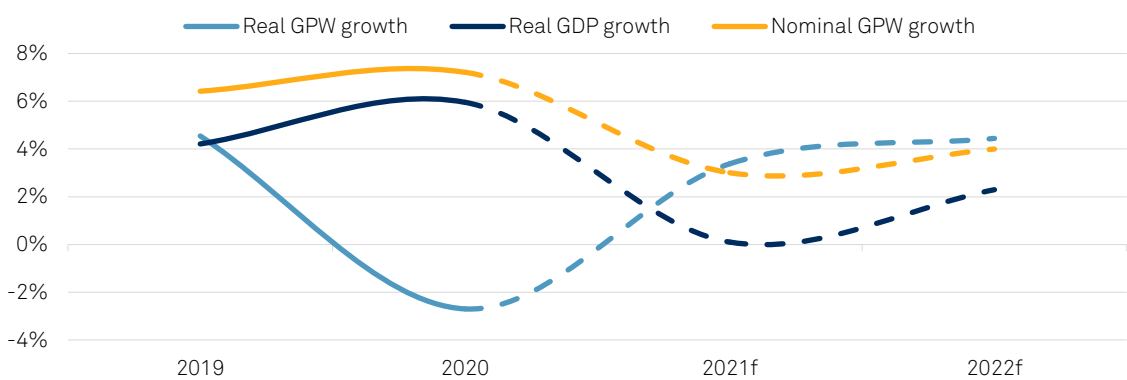


- Following **rate hikes that supported premium growth**, this will moderate to become more in line with GDP.
- The market has been experiencing hardening rates, notably in motor, property, and accident lines, but **performance remains relatively weaker than the European average**.
- We think that the market will **maintain its underwriting discipline** in future due to ongoing consolidation.
- The Netherlands is exposed to **some physical risks** such as hail and storm winds, but insurers typically budget for them. In addition, due to the low-lying nature of the country, **flood risk occurs but few companies offer it**. Hence, the P/C sector's **profitability is unlikely to be materially affected** by these risks.

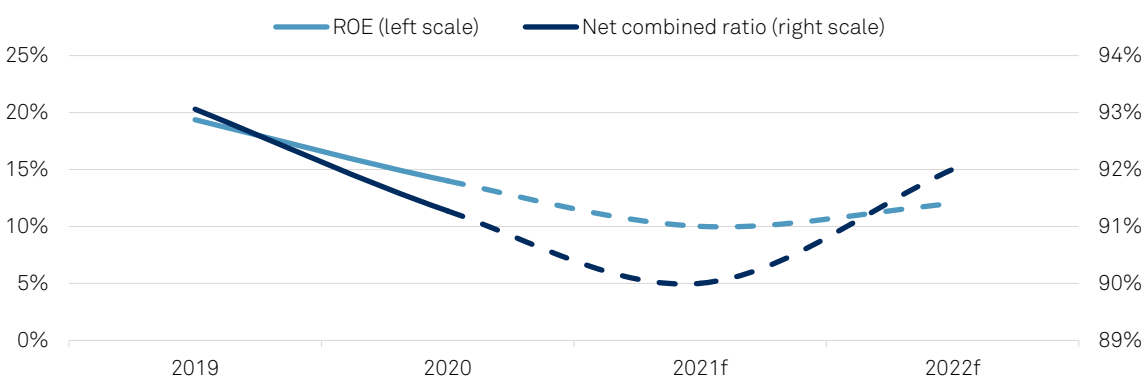
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Norway P/C | Among The Strongest Performers Globally, Though Insurers Have Appetite For High-Risk Assets

## Favorable Growth, Expected To Be In Line With GDP



## Profitability Will Remain Strong Over 2021-2022

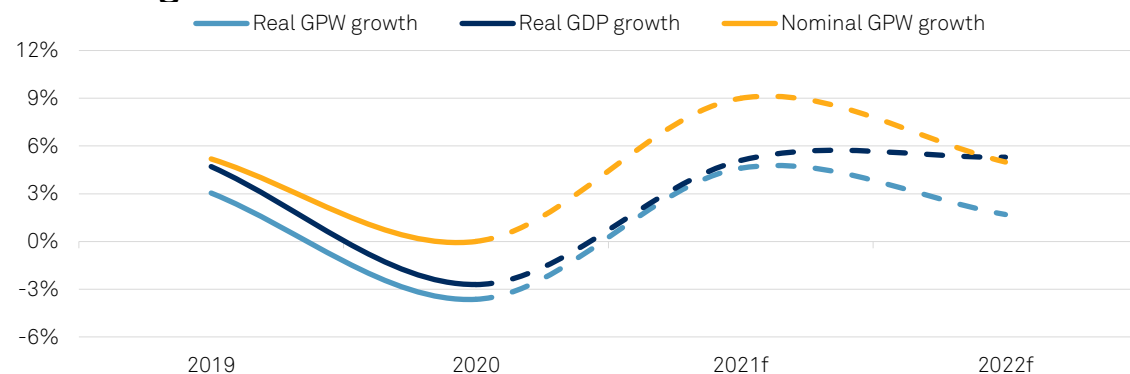


- Economic growth, low unemployment rates, and an expansive fiscal rule help sustain a **positive operating environment** to generate profitable insurance growth.
- The Norwegian P/C market has consistently **outperformed the majority of European** (and global) non-life sectors in terms of underwriting profitability. We expect this to continue into 2022.
- Norwegian players have a relatively **high appetite for equity investments**. About one-third of investments are held in equities or funds, potentially exposing insurers to some earnings volatility.
- **Some exposure to natural catastrophes** (storms and flooding), though these are mitigated through the Norwegian Natural Perils Pool and the purchase of extensive reinsurance.

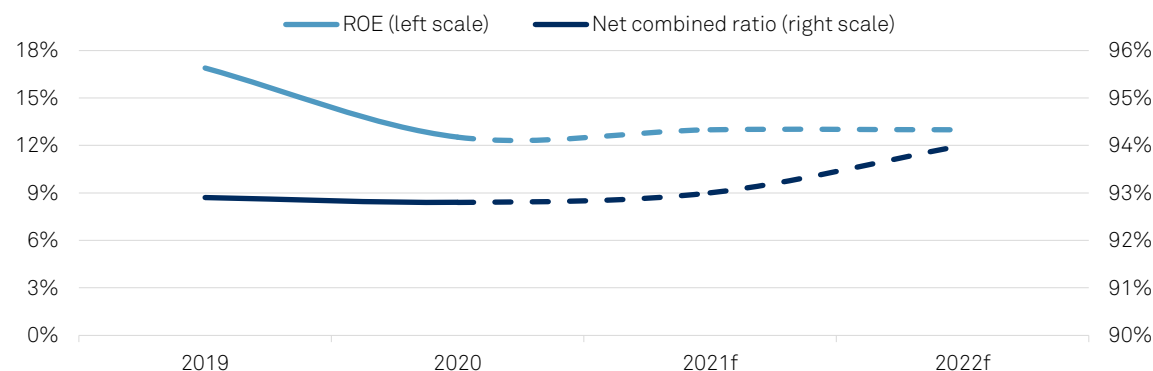
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Poland P/C | Solid Growth Prospects Support Stable Profitability

## Real GPW Growth In Line With Economic Development And Following Some Claims Inflation



## Profitability To Remain Stable In 2021-2022, With Limited Impact From COVID-19 Claims



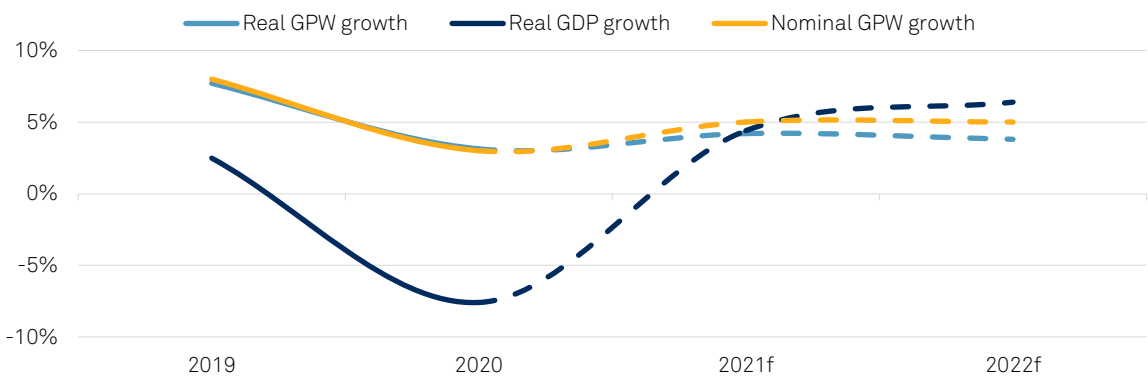
- **Stable medium-term profitability despite** an expected increase in competition, continued claims inflation, and rising operating costs.
- Weaker performance in 2020 mainly due to **higher capital base and regulator's request to cancel dividend payments in 2020**. In addition, market volatility and low interest rates reduced investment incomes below 2019 levels.
- **Market leader PZU S.A. materially outperforms the sector.** Excluding PZU, sector performance would be materially weaker and more volatile.
- Motor represents around 55% of total GPW. We have seen a **rebound in the sale of new and used cars** in 2021, though a slowdown could pressure volumes and profitability.
- Still-**evolving legislative practices** affect the predictability of claims settlements and **can trigger some volatility in returns.**

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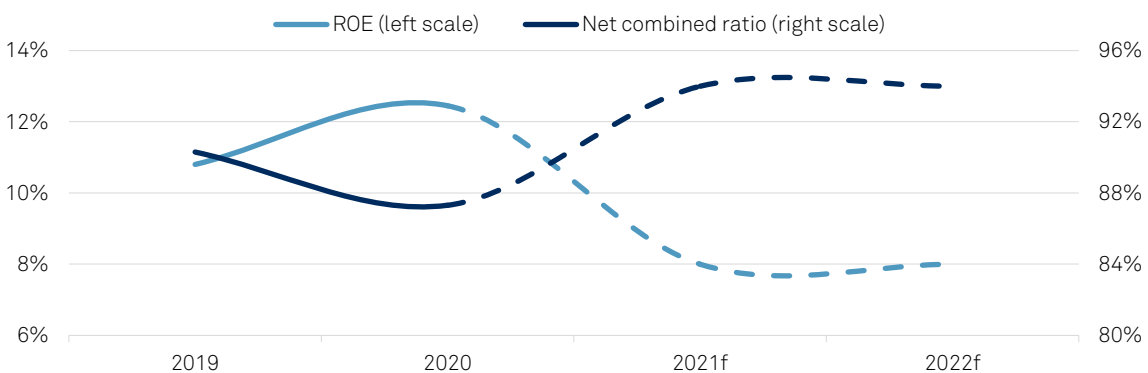


# Portugal P/C | Growing Economy To Provide Opportunities For Profitable Premium Growth

## We Expect Premium Growth To Continue, Albeit At A Slower Pace



## Profitability To Stabilize At Current Favorable Levels

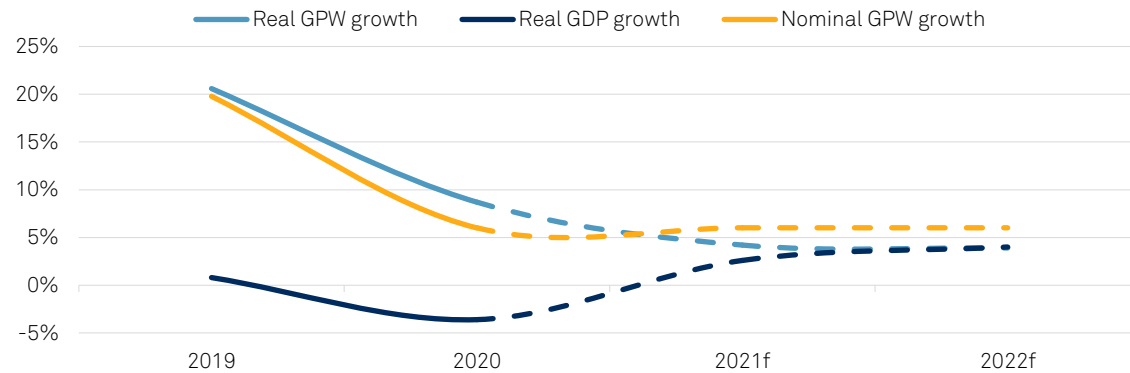


- We see the Portuguese P/C sector having **favorable growth prospects** on account of **increasing household and corporate confidence** in the economy.
- Portugal's P/C sector has **structurally improved its profitability** and we expect it to sustain it at this level over the next two years.
- **Workers' compensation**, which was the least profitable line, has **significantly improved** its combined ratios, thanks to rate improvements.
- Portugal is exposed to **low frequency, high severity-type natural disasters** such as earthquakes and floods, notably in the south. However, mitigation strategies limit the potential for earnings volatility.

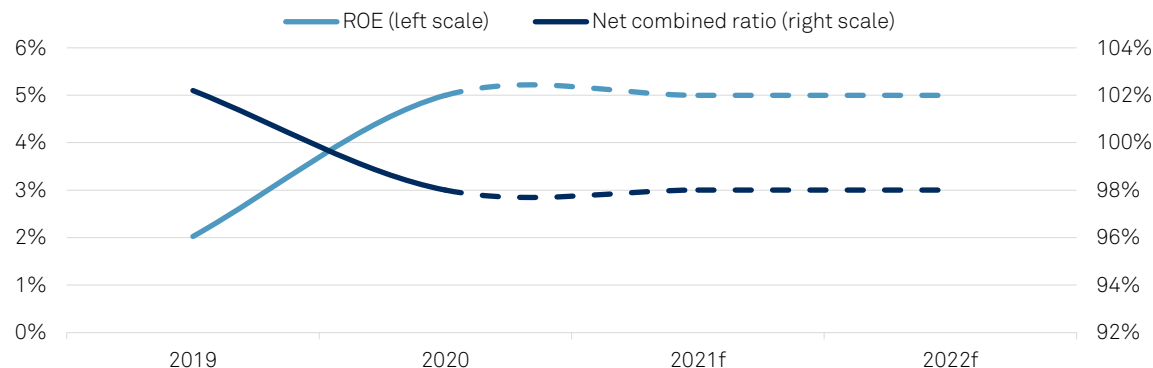
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Qatar P/C | Low Product Risk And Relatively High Barriers To Entry, Offset By Material Exposure To High-Risk Assets

## GPW Growth Continues To Outpace GDP Growth



## Technical Profitability Has Improved In Recent Years And Is Likely To Remain At Current Levels

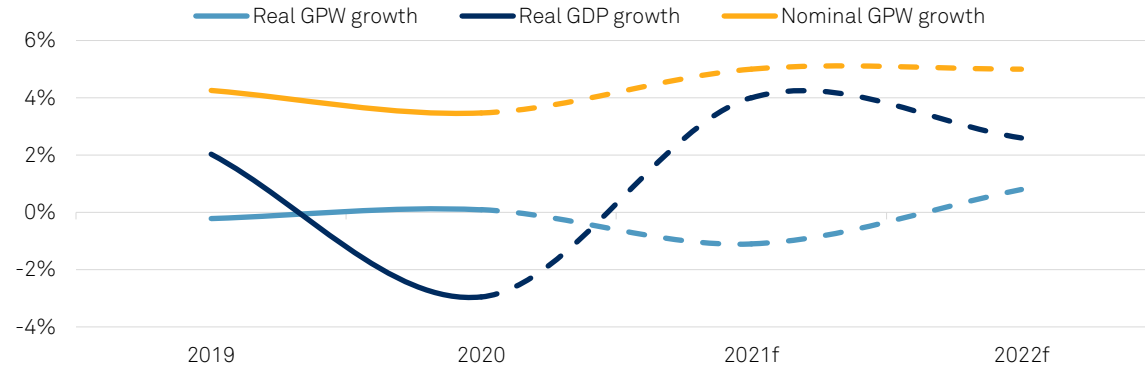


- The P/C industry continues to offer **decent growth prospects** in the run up to the FIFA 2022 World Cup.
- The introduction of a **compulsory medical insurance** scheme, likely to start in May 2022, offers **material growth opportunities**.
- Thanks to **corrective pricing actions**, the net combined ratio should remain at 98%, or lower, over the next two years.
- Qatari insurers' **large capital base drives modest ROE** levels.
- Investment portfolio geared toward **high-risk assets** (equities and real estate) could cause **ROE volatility**.

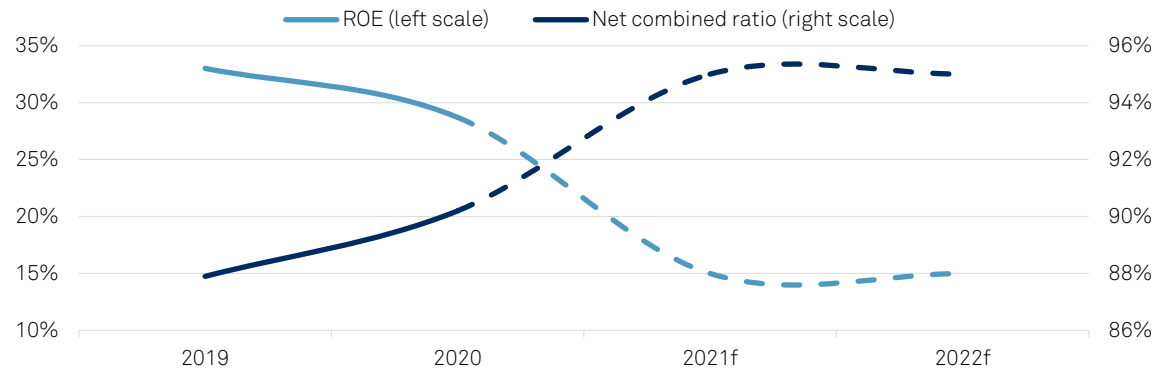
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Russia P/C | Profitability Remains Resilient To **Adverse Macroeconomic Conditions And Competitive Pressures**

## Limited Real GPW Growth Prospects Over 2021-2022



## Resilient Performance Expected To Continue Amid Economic Rebound

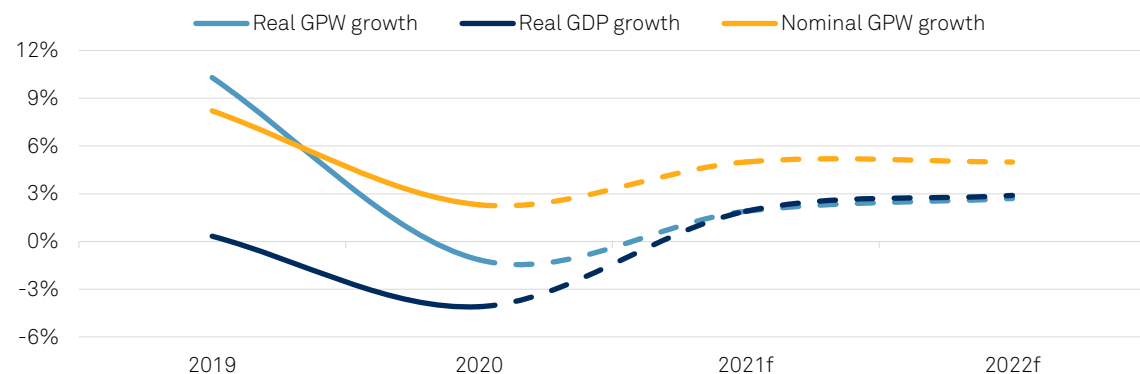


- Large P/C insurers achieved **sound operating performance and improved credit quality** of their investment portfolios.
- We anticipate an **increase in competition** following liberalization measures, particularly in the motor segment.
- Expected ROE of around 15% in 2021-2022 is weaker than in 2020, which notably benefitted from one-off foreign-exchange gains.
- P/C insurers generally **benefited from lockdown measures in 2020**, since lower motor and medical claims frequency improved loss ratios, while COVID-19-related losses were minimal.
- **Regulation has become more stringent** over the past five years. On July 1, 2021, the regulator introduced a **risk-based approach for calculating capital requirements** in 2021, similar to Solvency II principles. In our view, insurers are generally **well prepared for the new solvency regime**, gradually strengthening their capital buffers.

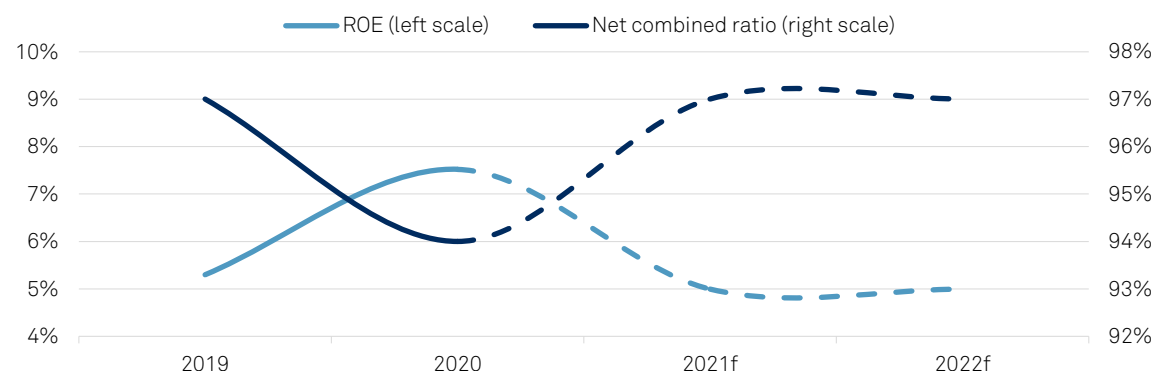
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Saudi Arabia P/C | Low Insurance Penetration And High Competition

## Profitable Market With Modest Growth Prospects



## Operating Performance In The Sector Likely To Remain Stable

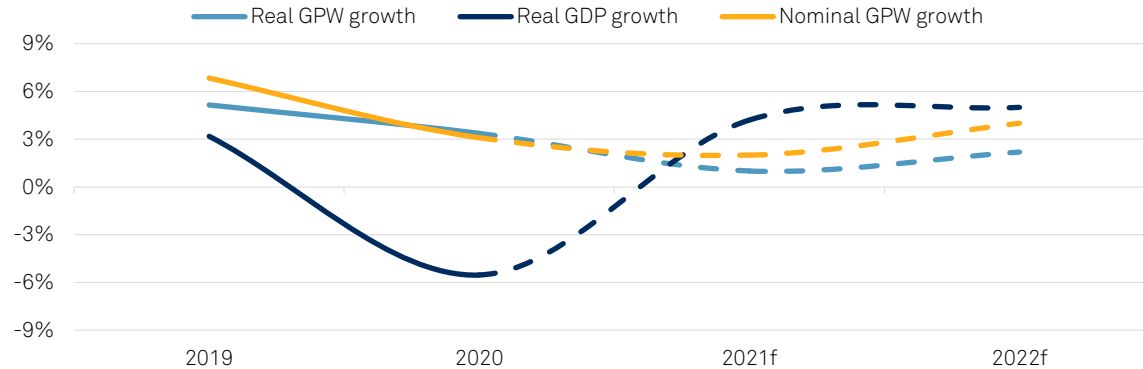


- The insurance regulator continues to actively **encourage companies in the sector to merge** in order to create a market with fewer, stronger players.
- Several **mergers and acquisitions** have been initiated over the past few years, with two completing in 2020 and some in advanced discussions.
- Prospective **premium growth**, primarily from **mandatory medical cover** for Hajj and Umrah pilgrims, **rate increases in commercial lines**, and authorities' efforts to **reduce the number of uninsured cars**.
- The government covered most of the cost of COVID-19-related medical care, which improved insurers' 2020 underwriting performance.
- About 80% of insurance policies sold in Saudi Arabia relate to motor and medical cover. This means that **losses are relatively predictable** and have a short tail.

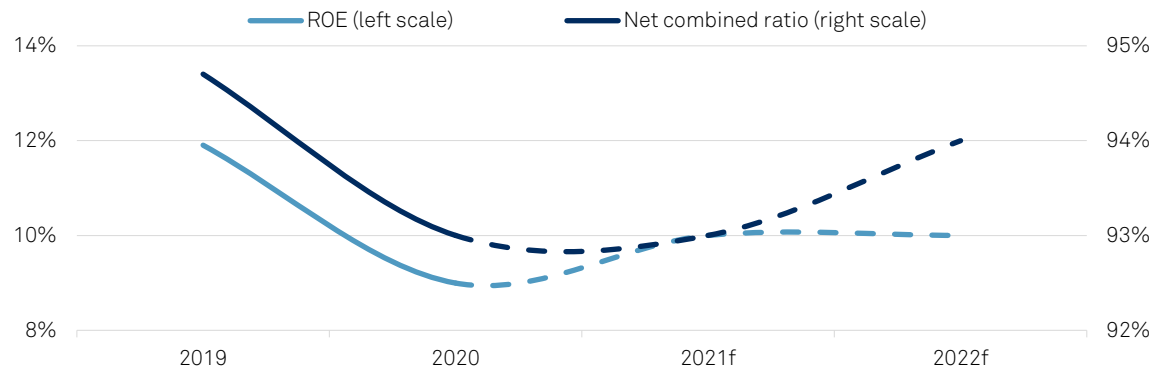
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Slovenia P/C | Strong And Sustainable Performance On The Back Of Continued Prudent Underwriting

## Real GPW Growth To Return To The Level Of Real GDP Growth By 2022



## Prudent Underwriting To Support Strong And Stable Profitability Through To 2022

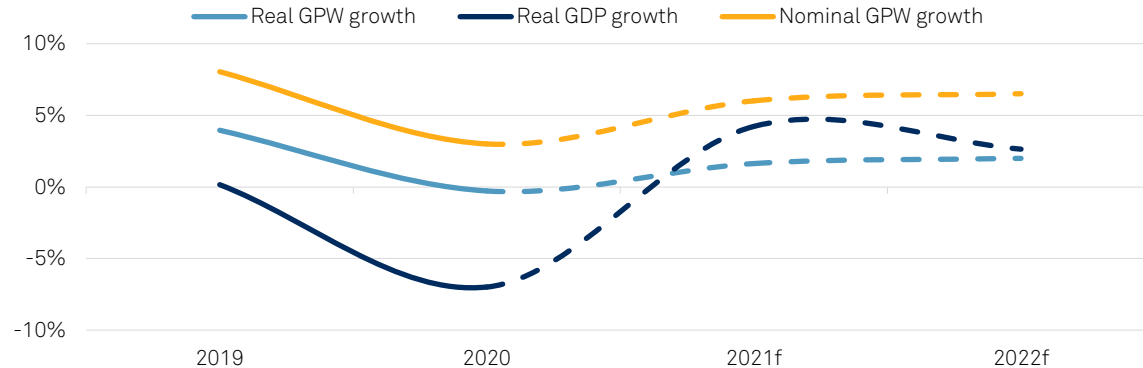


- GPW growth in 2021 could **be limited by some premium returns in the health line**, before improving in 2022 **in line with GDP**.
- The sector was resilient in 2020 and in first-half 2021, with **no material negative impact from COVID-19**. This was mainly due to P/C insurers' very limited exposure to the most affected lines, and some frequency benefit in motor and health lines.
- **Continued robust capitalization and reserving position of rated players**, supported by the regulator's request to halt dividends in 2020.
- Despite exposure to natural catastrophes, **access to reinsurance capacity** internationally limits this.
- We consider that any **legislative changes that affect the health insurance line are unlikely in 2021-2022**. In the longer term, the future of the line remains uncertain.

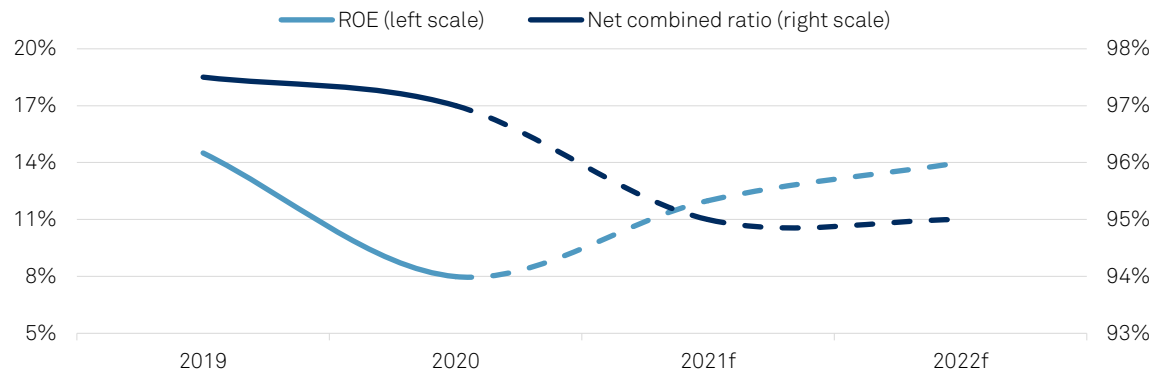
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# South Africa P/C | Resilient Profitability, Though The **Macroeconomic Environment Is A Challenge**

## Constrained Economic Growth Has Hampered The Potential For Broader Insurable Risks



## Profitability To Improve In 2021 Onwards, Following One-Off Pandemic-Related Large Losses In 2020



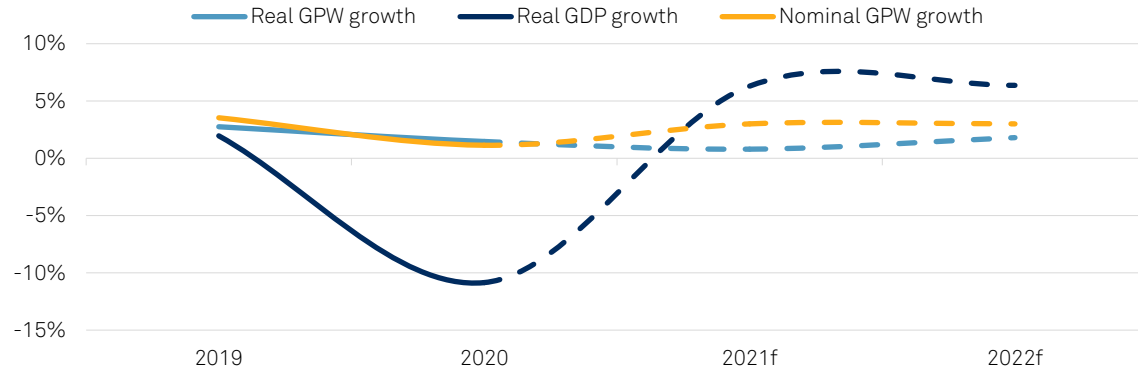
- The P/C sector continues to demonstrate **resilient current, and prospective, profitability**. We expect profitability levels to improve in 2021 from 2020, following large, one-off losses relating to business interruption claims.
- **The July riots** will have a **limited effect on insurers' earnings**, since riots and political violence policies are generally covered by Sasria.
- Unlike most emerging market insurers, insurance companies in South Africa enjoy a **diversified and active capital market**, offering investment in a variety of assets. That said, these are largely in **local currency and concentrated domestically**, resulting in relatively low credit quality and **heightened credit risk**.
- **Product risks** arise from **natural catastrophe exposures** relating to hail, flooding, and other weather-related events, and investment constraints due to **low credit quality**.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Sasria is a South Africa-based state-owned insurance company providing coverage for damage caused by special risks such as politically motivated malicious acts, riots, strikes, terrorism and public disorders. Source: S&P Global Ratings.

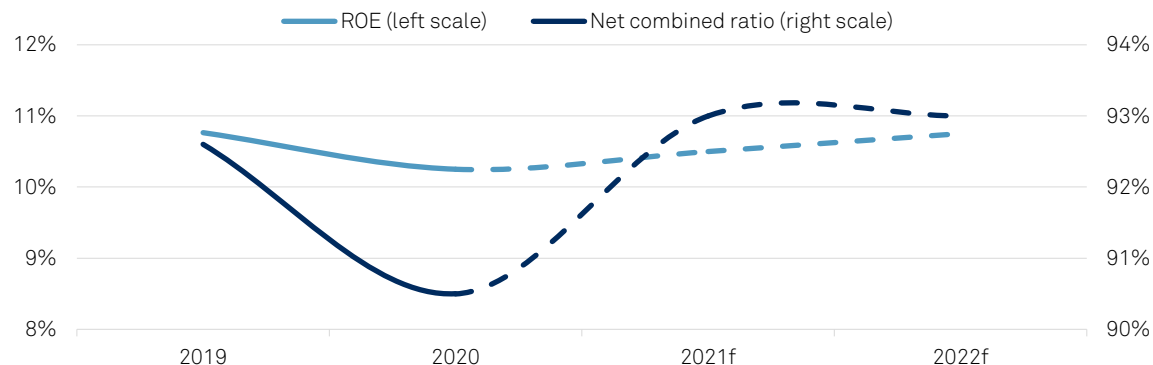


# Spain P/C | One Of The Most Profitable In Europe **Despite Declining Fixed-Income Investment Returns**

## The Economic Recovery May Offer Some Opportunities For Premium Growth



## We Expect The Sector To Sustain Its Sound Technical Performance

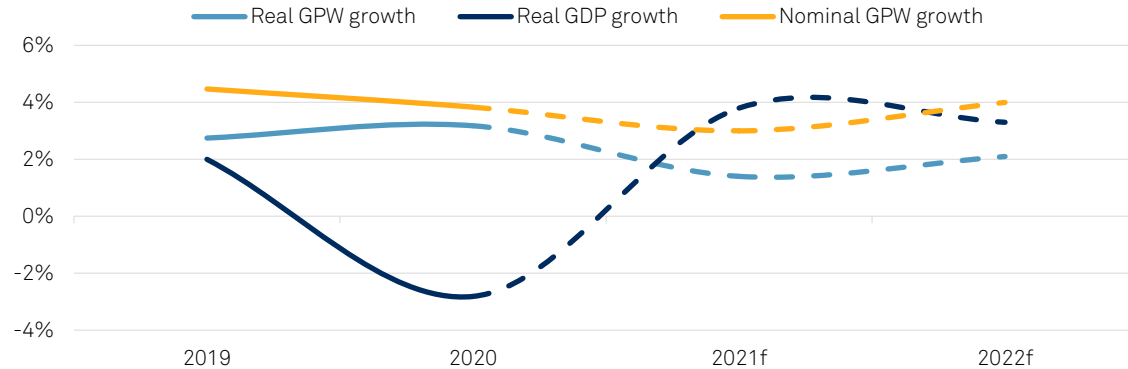


- **Non-life activities have been very profitable**, both while the economy was supportive, and when the economic situation was troubled, such as during the pandemic in 2020.
- **Claims display little volatility**, lowering product risk. We attribute this stability to the Insurance Compensation Consortium and the Baremo.
- **Barriers to entry remain high**, protecting the profitability of existing players.
- Prevailing **low interest rates** and high volatility in the equity markets have been detrimental to investment yields and will remain so.
- **Industrial lines showcase weak profitability**, despite some signs of improvements since 2019.

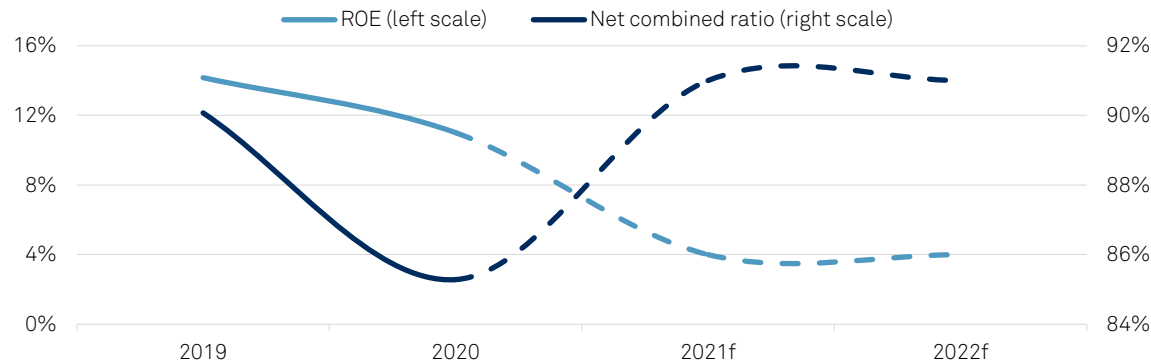
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. The Insurance Compensation Consortium (Consortio de Compensacion de Seguros) is a public entity that mitigates spikes in claims arising from extraordinary events. The Baremo helps participants predict claim settlements for bodily injuries arising from motor accidents. Source: S&P Global Ratings.

# Sweden P/C | Highly Profitable Market **Despite Some Product Risk And Exposure To Equities**

## The Sector Continued To Grow Despite Recessionary Conditions



## Strong Profitability Likely To Carry Through To 2022

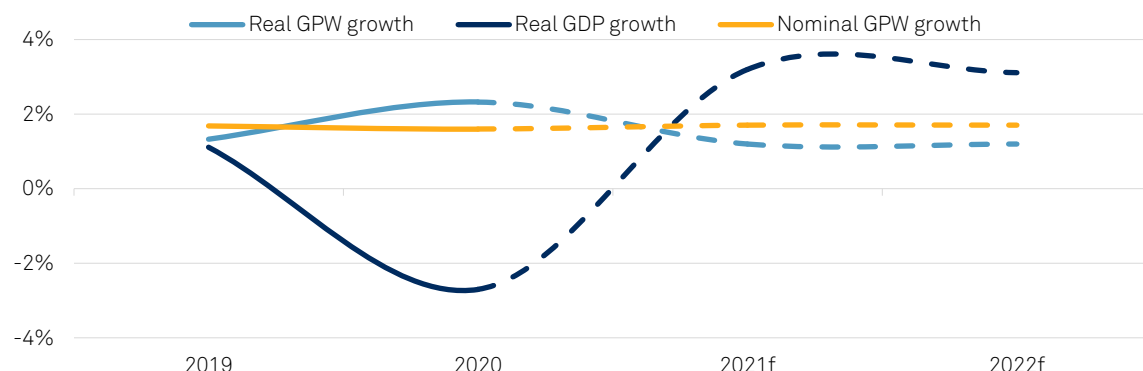


- The sector demonstrates **strong profitability levels**, supported by robust technical performance that offsets the low interest rate environment.
- Some **exposure to natural catastrophes** (including storms, floods, and harsh winters) has resulted in large claims, but the market's overall profitability helps offset this.
- **Sizable long-tail risks relating to motor claims** (about 37% of market premium in 2019) expose the sector to claims inflation and legislative changes.
- **Higher appetite for equity investments** than peers in other European countries increases earnings volatility and market risk.
- In line with Nordic peers, the sector is **highly cost effective**, supporting technical performance.

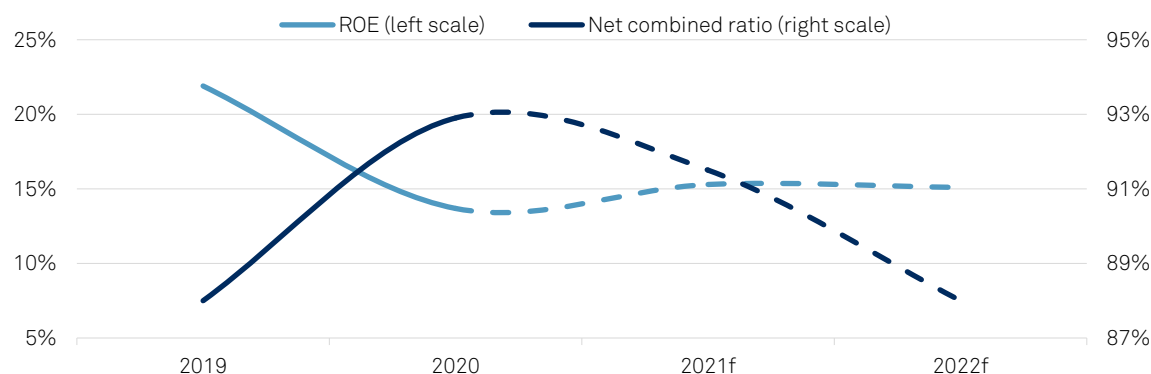
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Switzerland P/C | Among The Least Risky Sectors Globally

## The Mature Market Still Offers Some Opportunities For GPW Growth



## Sustainably Strong Returns With Relatively Little Volatility

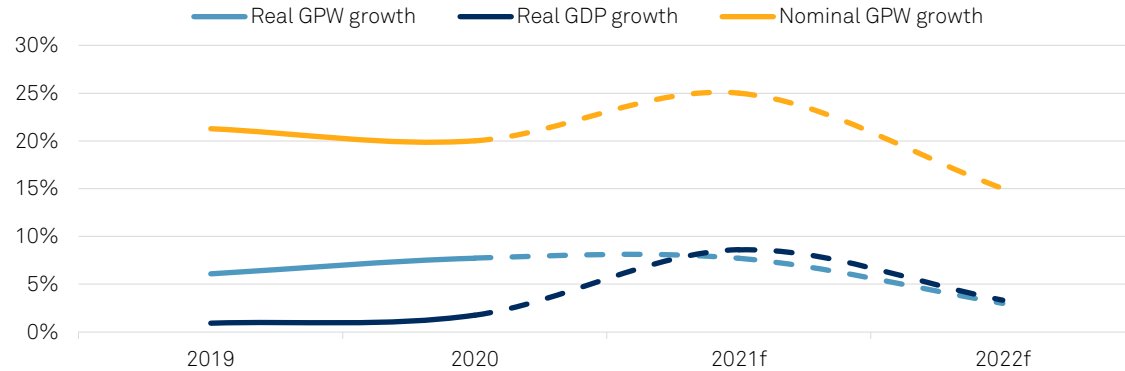


- Swiss authorities' **supportive policy measures** should prevent longer-lasting damage to the economy's productive capacity. Hence, we believe there is **profitable GPW growth potential**.
- Although it **remains strong**, profitability was somewhat affected by higher-than-average claims in 2020 as a result of **COVID-19 losses**, as well as high **natural catastrophe losses** in 2021.
- **Disciplined underwriting**, strict claims management, and less fierce price competition are all important factors that contribute to the sector's **strong profitability**.
- The market has a **relatively high exposure to investment properties**, which could come under pressure considering the ongoing environment.
- The sector benefits from significant buffers offered by a state-driven **mandatory insurance coverage program for natural disasters**, which limits product risk.

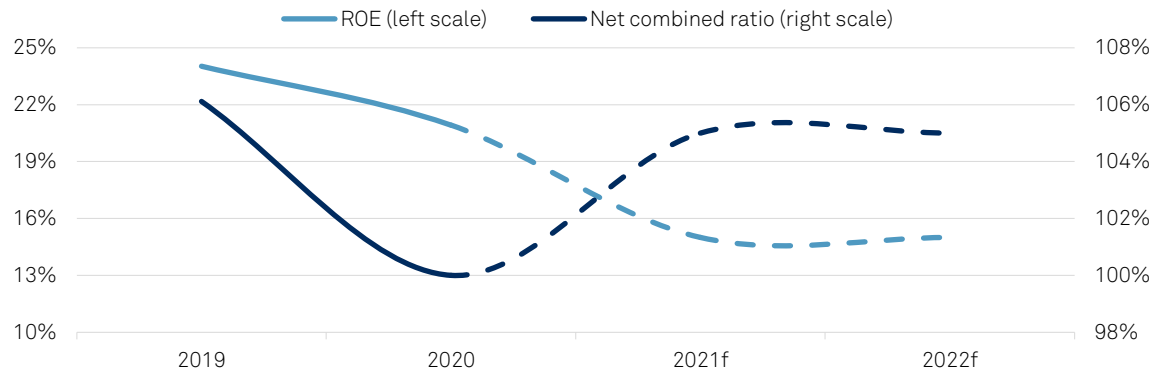
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Turkey P/C | Risks Arise From **Challenging Economic And Institutional Environments**, With Poor Technical Performance

The Sector Continues To Develop, Presenting Opportunities For GPW Growth



Technical Performance To Revert To Poor Pre-Pandemic Levels In 2021-2022

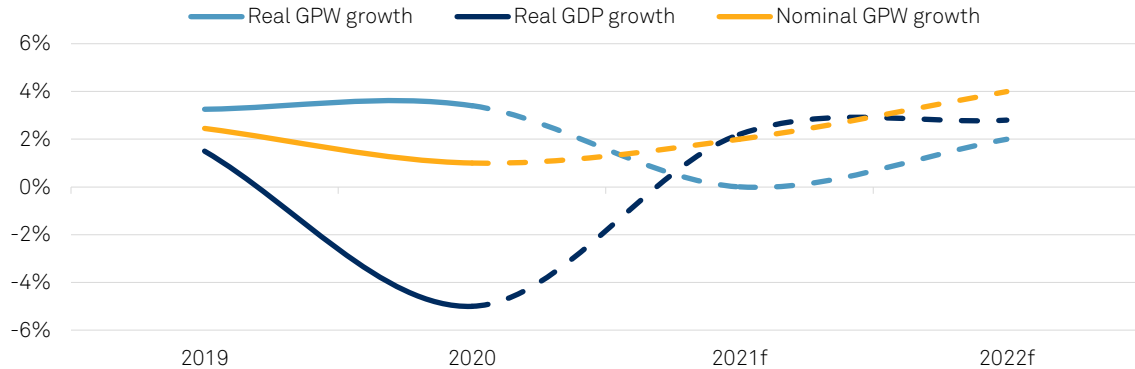


P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

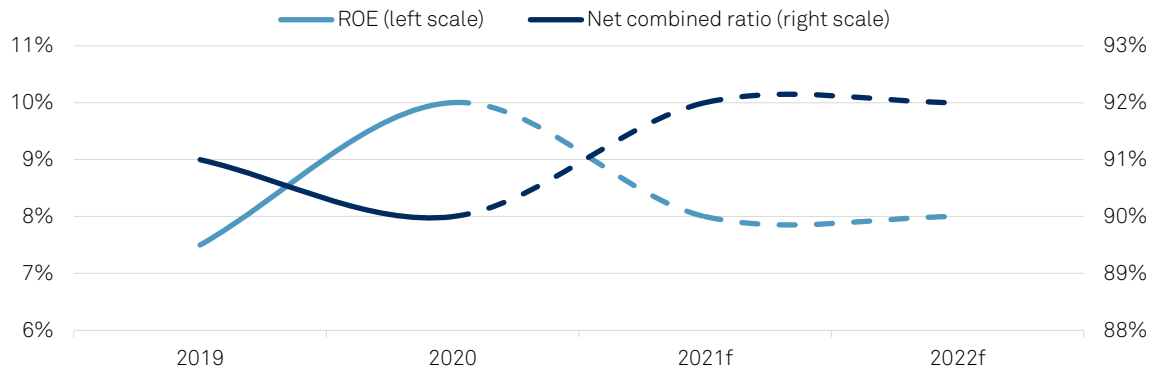
- **Unpredictable policy changes could lead to volatility**, and consequently hinder profitability prospects for insurers.
- The insurance sector has **material exposure to local banks**, significantly **straining insurers' asset credit quality**. Yet, companies earn material investment income from their deposits, offsetting the technical losses.
- With **motor insurance** representing about one-half of non-life premiums, its **poor performance**, particularly third-party liability, is a **key driver of the sector's results**. In addition, local currency devaluation hinders performance by increasing the cost of spare car parts, and consequently claims.
- **Unpredictable claims settlements** could materially affect insurers' results. In addition, Turkey is **one of the world's most earthquake-prone countries**, increasing product risk.
- Increased penetration in earthquake protection boosts insurers' profitability in catastrophe-benign years. However, heightened exposure to this type of cover exposes insurers to **major potential losses**.

# United Arab Emirates P/C | **Very Profitable Underwriting, Despite Fierce Competition**

## We Anticipate Satisfactory Growth For the P/C Sector



## The Sector Benefits From Very Profitable Underwriting That We Expect Will Continue

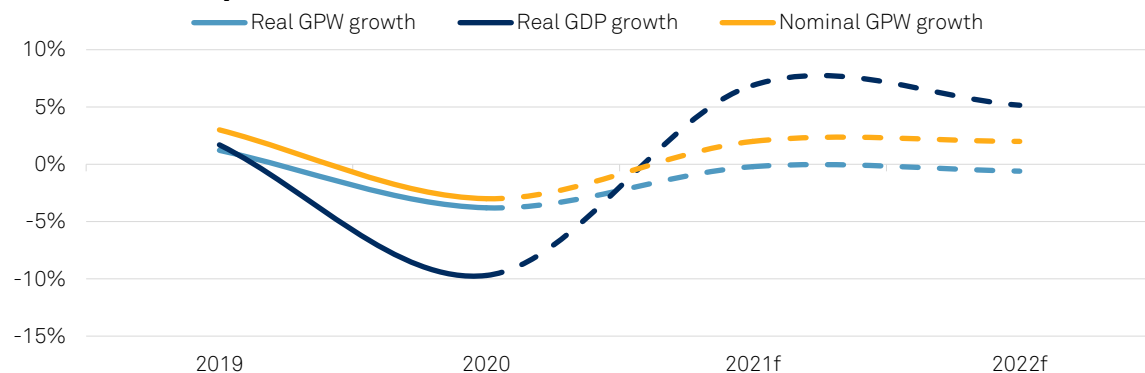


- We expect GWP growth to be modest in 2021. **Ongoing infrastructure spend** and an **increase in visitor numbers will be** the main drivers of GWP in 2021 and 2022, in addition to a successful vaccine rollout program and the delayed Expo 2020.
- **Intense competition**, as well as more frequent motor claims and the **resumption of non-essential medical treatments** that were paused during the movement restrictions in 2020, will likely lead to a slight weakening in technical performance in 2021 and 2022.
- Roughly **50%** of total investments are allocated in **equity and real estate**, which could introduce some earnings volatility.
- **Reinsurance rates for energy, property, and liability risk have increased substantially in recent years**, partly following global trends, as well as a reduction in capacity and some larger property and fire claims. However, international reinsurers still provide adequate capacity for all major risks, and we therefore do not consider product risk to be elevated.

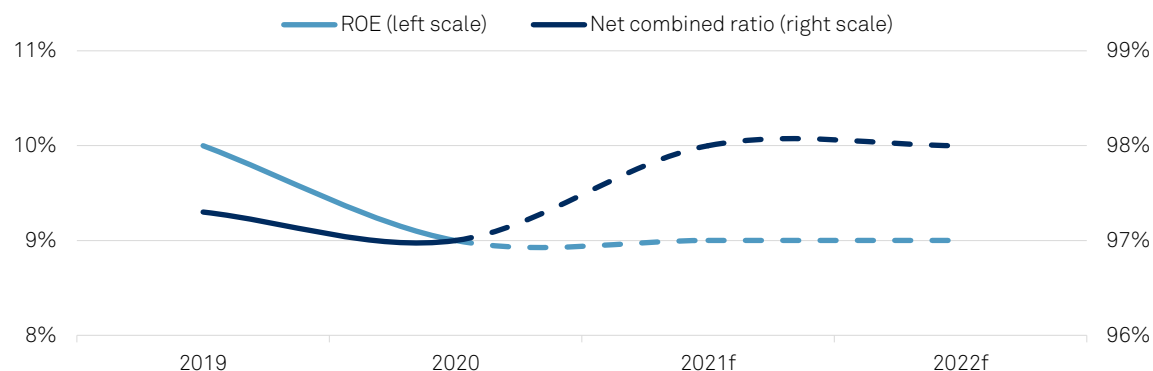
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. Abu Dhabi used as proxy for the UAE's macroeconomic indicators. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# U.K. P/C | **Satisfactory Profitability** Amid A Litigious Legal System

## The Mature Stage Of The Industry Results In Limited Real GPW Growth Prospects



## We Expect Stable, But Unspectacular Profitability For U.K. Insurers Over 2021-2022



- **COVID-19 has moderately affected the P/C market**, with business interruption (BI) claims hitting the commercial small and midsize enterprise (SME) insurance market. Personal lines motor insurers are benefiting from fewer claims.
- The industry suffered a blow to its image when many **insurers refuted COVID-19 related BI claims** from SMEs.
- The U.K.'s increasingly **litigious culture** and volatility in bodily injury claims settlements have brought instability to results.
- The government-supported **Flood Re** scheme significantly **reduces the exposure of U.K. insurers** to flood risk.
- The 2021 winter season saw limited storms and flooding, but the U.K. experienced some flash flooding in the summer in London. Total **weather-related claims in 2021 are likely to be lower than in 2020**, however.
- The dominance of **price comparison websites** as the main retail distribution channel continues to **drive fierce competition**.

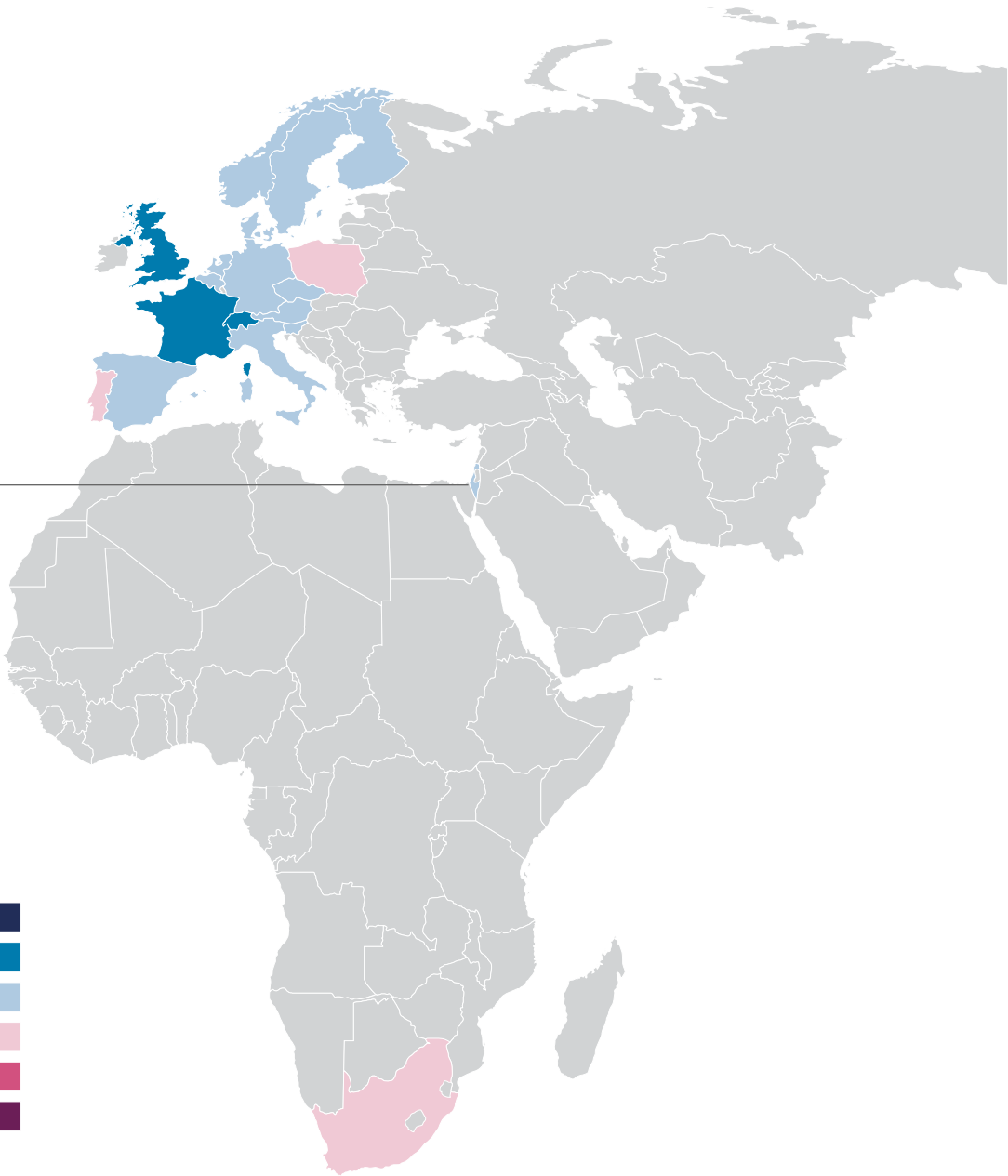
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.



# EMEA Life

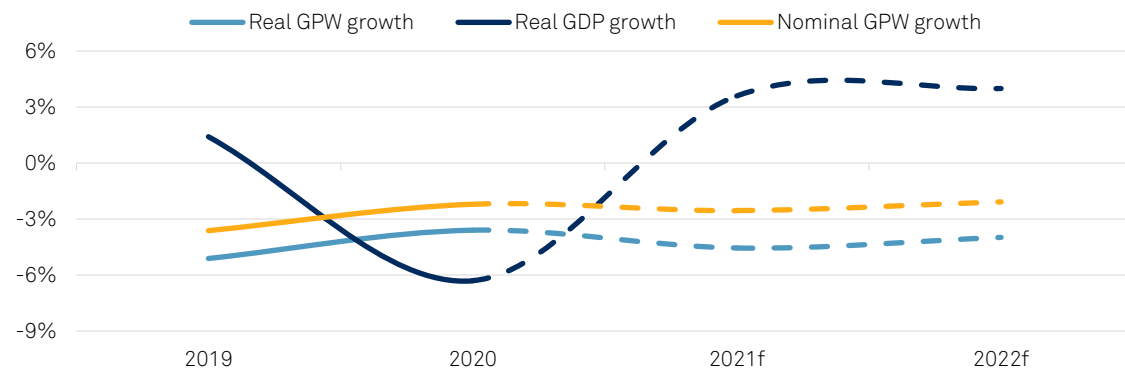


- Very low risk
- Low risk
- Intermediate risk
- Moderately high risk
- High risk
- Very high risk

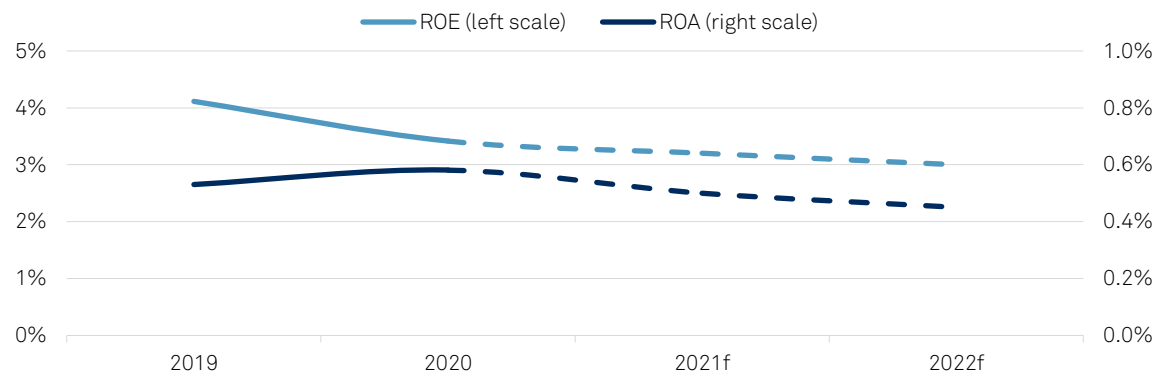


# Austria Life | Market Expected To Shrink But Remain Profitable

## Real Premium Decline Due To Muted Demand For Life Products



## Relatively Stable But Low Profit Margins Result In Modest Returns

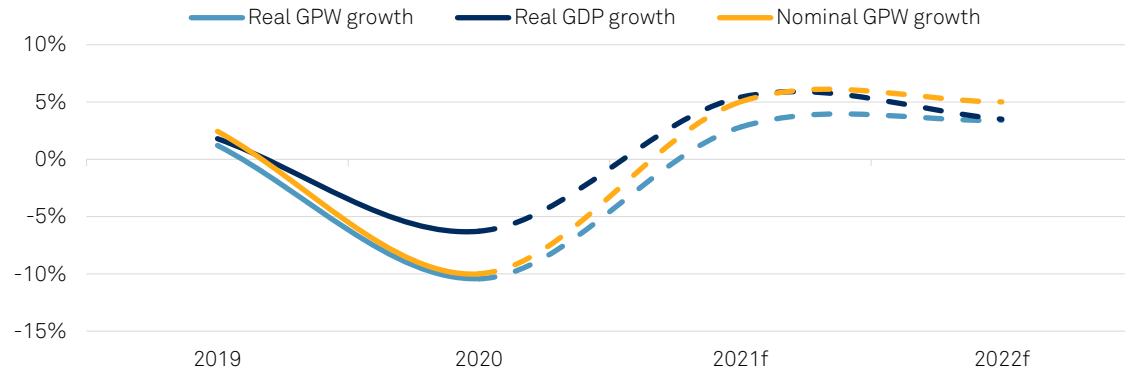


- The sector's stable **profitability is comparatively weaker** than its EU peers.
- **Increased product risks** stemming from guarantees in the back books and asset-liability mismatches, together with a decline in interest yields, could **pressure bottom-line results going forward**.
- Higher expense ratios for Austrian insurers **could cause ROE to decline further** over 2021-2023.
- Ongoing economic pressure from the pandemic, combined with weak demand, will lead to a **decline in the market's GPW**.

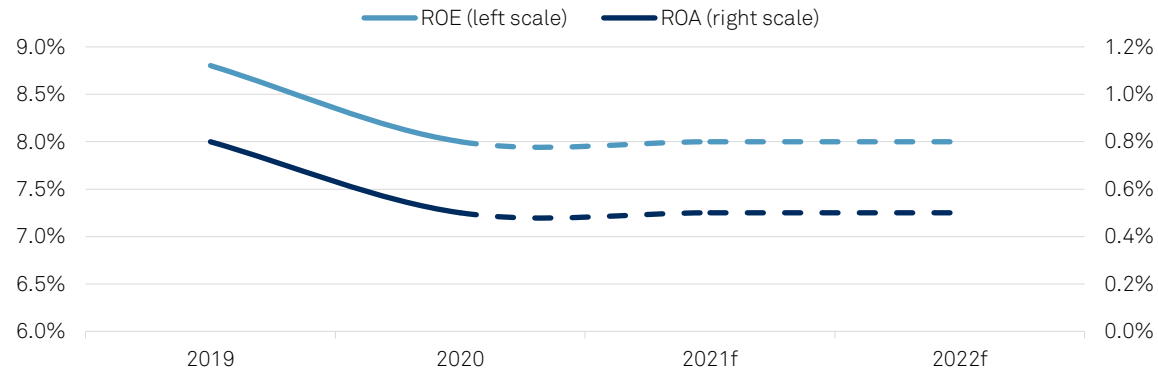
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Belgium Life | **Wealthy And Robust Economy** To Support Premium Growth

## GPW Growth Expected To Correlate With Real GDP Growth



## Returns To Remain Relatively Constrained Due To The Low Interest Rate Environment

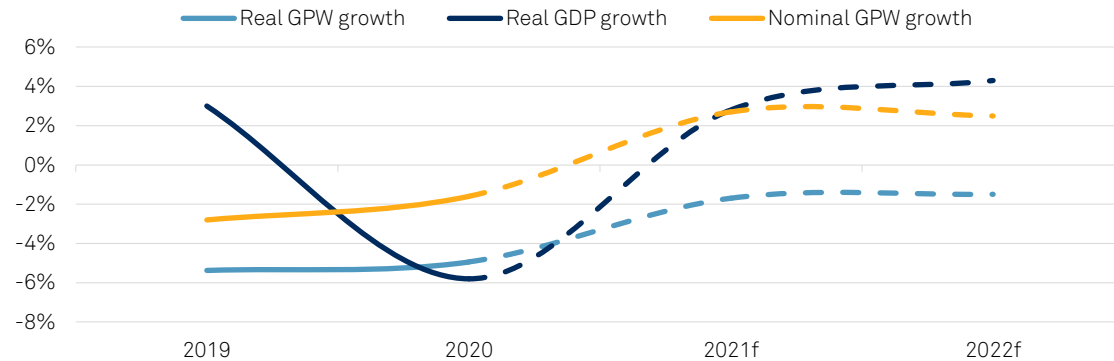


- Despite features and mechanisms protecting life insurers' balance sheets from interest rate risk, the relatively higher guaranteed rates make the sector **structurally more vulnerable to low interest rates** than some neighboring markets.
- A **decline in average guarantees** and reduced requirements for additional provisions in the back book result in **improved and more stable profitability metrics**.
- After a drop in premiums in 2020 due to the COVID-19 pandemic, we expect life insurance **premium growth will recover over 2021-2022**, in line with GDP.

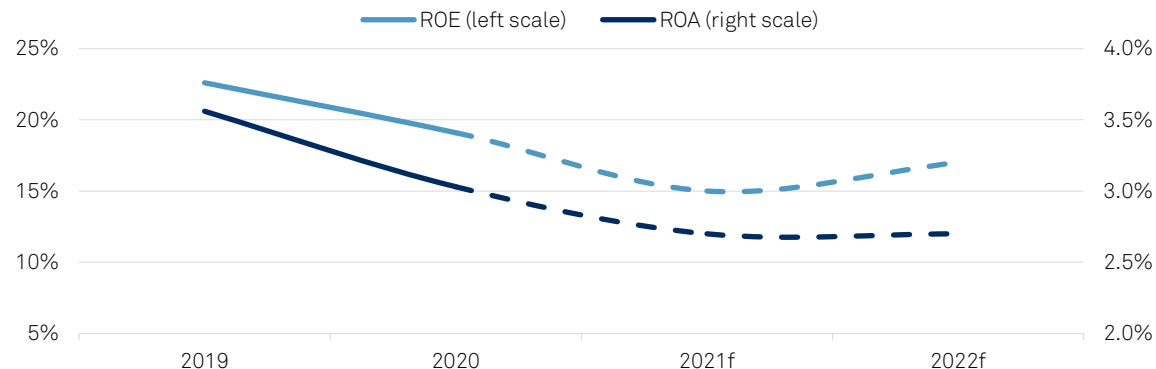
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Czech Republic Life | Technical Profitability Remains One Of The Strongest In Europe

## Premium Growth Remains Weak Despite Macroeconomic Recovery



## Despite Some Challenges, We Expect Performance To Remain One Of The Strongest In Europe

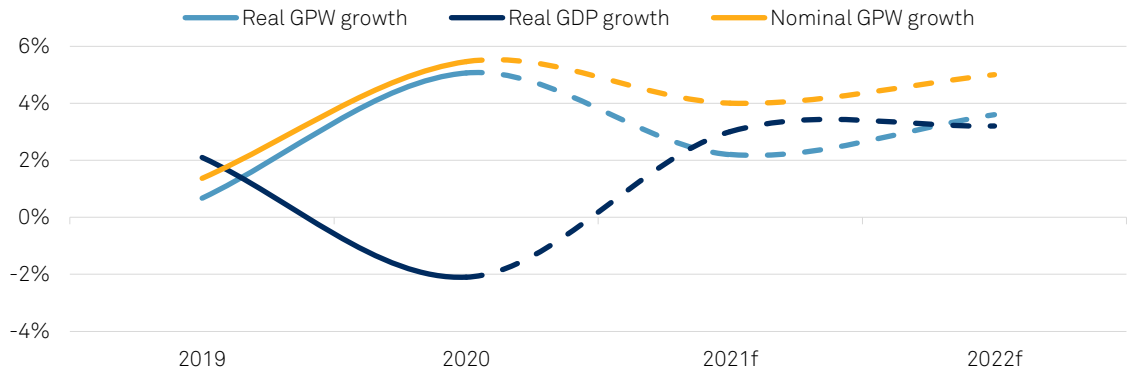


GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Czech insurers are composite players, as such ROE reflects combined life and non-life operations. Source: S&P Global Ratings.

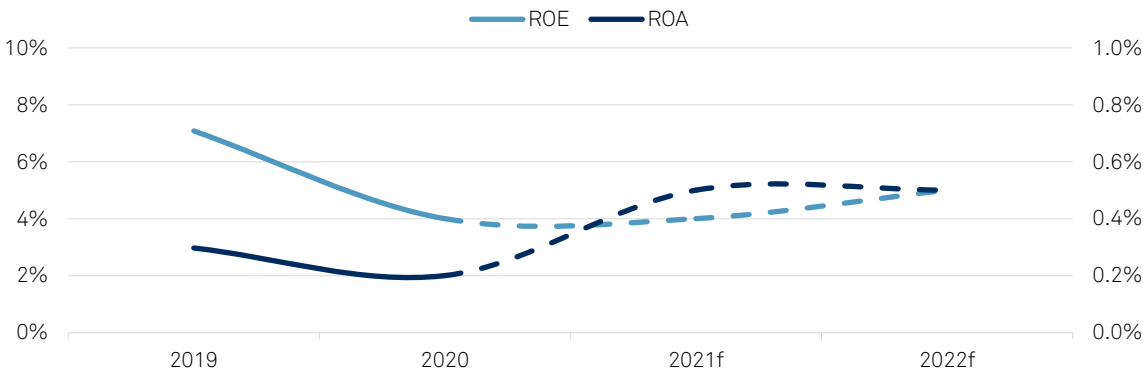
- **Life activities have been very profitable**, both while the economy was supportive, and when troubled, despite COVID-19.
- Because **risk protection and unit-linked products** dominate the sector, the market has comparably lower exposure to lower- for-longer interest rates.
- **Reputational challenges hamper growth** in unit-linked policies, with life insurance products being less attractive than other investment products. We therefore expect **growth to remain subdued in 2021-2022**.
- Because of COVID-19-related measures, some higher mortality, lower investment gains, and higher operational costs, we expect **profitability in 2021-2022 to remain below historic highs**.
- In comparison to EU insurers, the sector's **asset portfolio is among the most concentrated in local government bonds**.

# Denmark Life | Weakest Performer Among Nordic Peers

## GPW Growth To Outpace Real GDP Growth, Thanks To Recovery In Disposable Income And Increasing Wealth



## Lower Profitability Relative To Nordic Peers

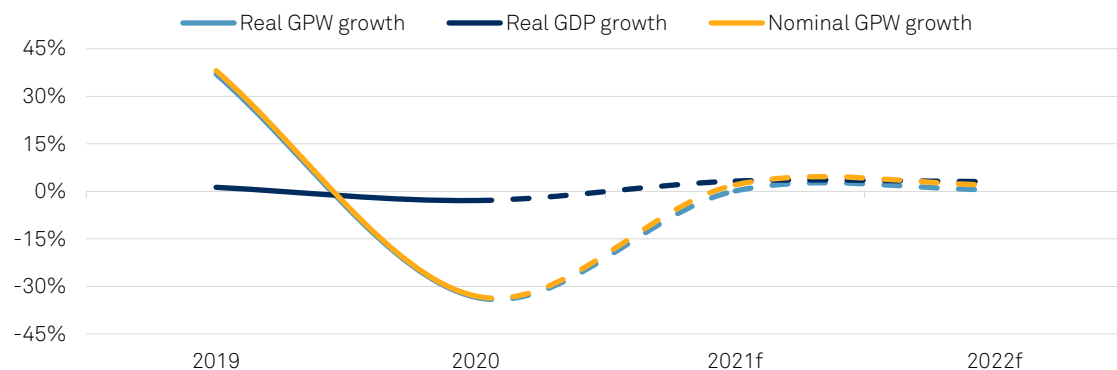


- Danish life insurers will continue to achieve **stable profitability in the long term**, supported by high operational barriers to entry and steady growth prospects.
- The **traditional guaranteed business**, with average guarantees of 2.5%, **constitutes a material portion of technical provisions**, though this is slightly lower than in Sweden and Finland (3.0%-3.5%).
- Relatively **high appetite for high-risk assets** such as equities, which account for over 30% of total invested assets.
- **High cost efficiency, good distribution channels, and strong brands** are key safeguards against threats from new entrants.

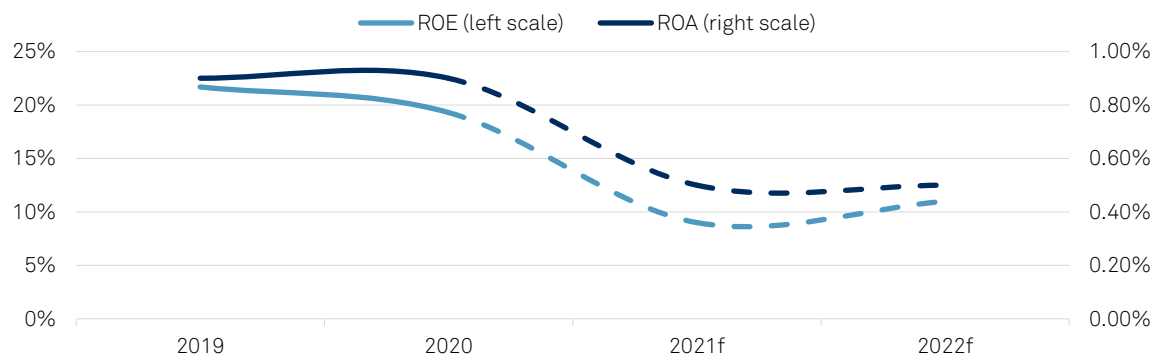
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Finland Life | Among The Highest Guarantees In The Back Book

## GPW Growth Experienced Material Volatility, But Is Expected To Align With Real GDP Growth



## Proven Record Of Strong Profitability



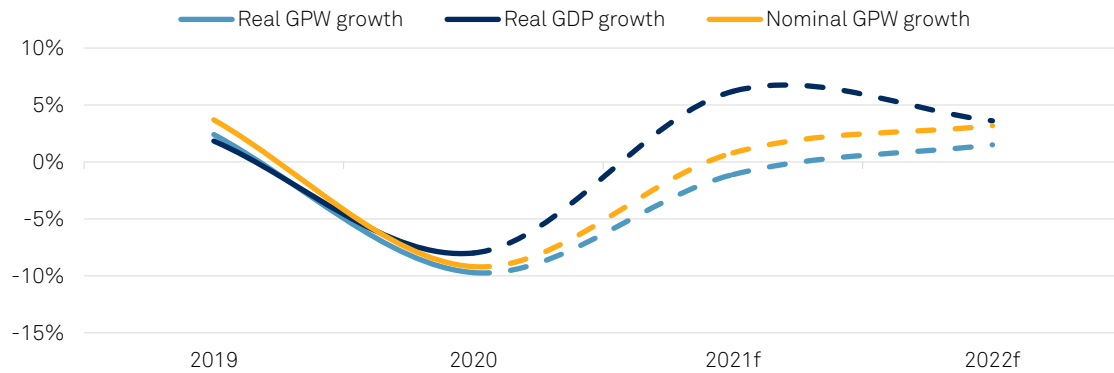
- **Premium growth** in the sector has historically witnessed **high volatility**, mainly due to fluctuations in capital redemption products and changes in tax regulations.
- While volatile interest rates and equity markets could constrain future profitability, **we expect bottom-line results to recover** in 2021-2022.
- Potential **volatility from investment risk and guaranteed back book**, with high guaranteed rates (around 4%, one of the highest in Europe). While Finnish insurers are shifting toward more capital-light products, it will take some time to reduce volatility.
- Market concentration and controlled distribution channels create **high operational barriers to entry**.

GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

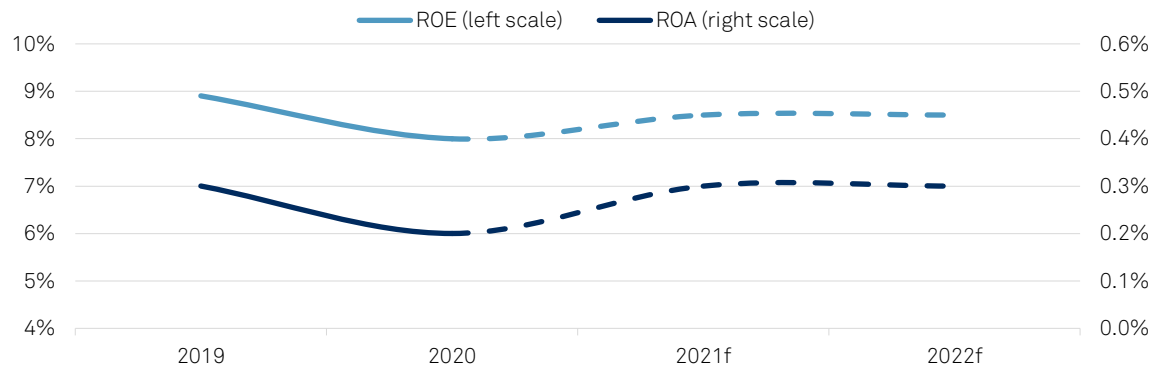


# France Life | Growth And Profits To Recover Following COVID-19 Impact

## Real GPW Growth Is Expected To Recover To Near 2% Over 2021-2022



## Stable Profitability Owing To Favorable Product Mix

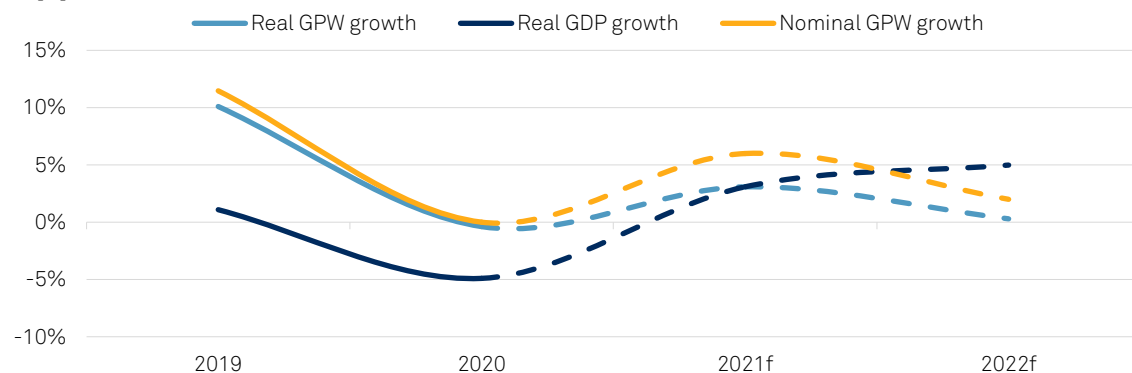


- The French life insurance sector benefits from a **diversified economy**, although growth opportunities and profitability were hit hard by COVID-19, as well as the prolonged low interest rate environment.
- Because of lower crediting rates for policyholders and an increasing share of higher-margin unit-linked and protection-type products, **French insurers should sustain satisfactory profitability through to 2022.**
- The French life insurance sector's capacity to sustainably generate capital buffers makes it **more resilient to low interest rates** than peer countries.
- **High household savings**, tax advantages of life products versus other savings vehicles, and the introduction of a new pension product **support premium growth.**

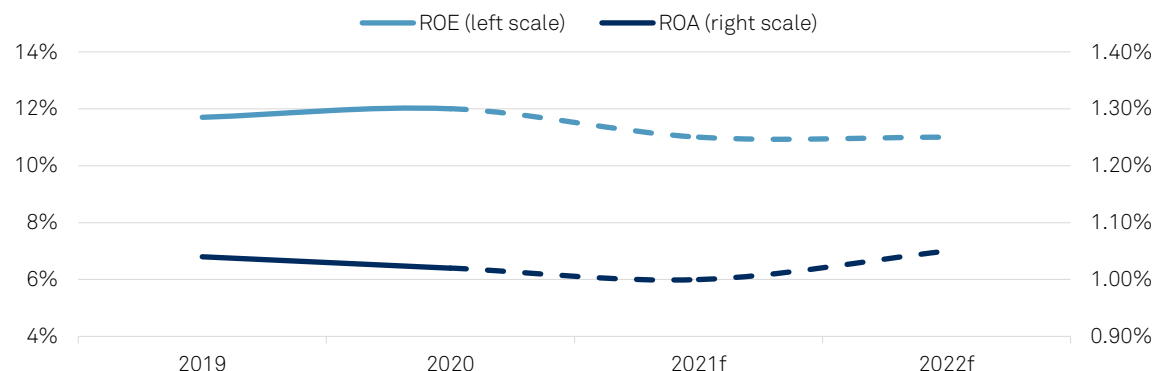
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Germany Life | **Stable Profitability** Amid Flat Premium Growth

## The Highly Mature Nature Of The Market Offers Limited Growth Opportunities



## Profitability To Remain In Line With Pre-Pandemic Levels

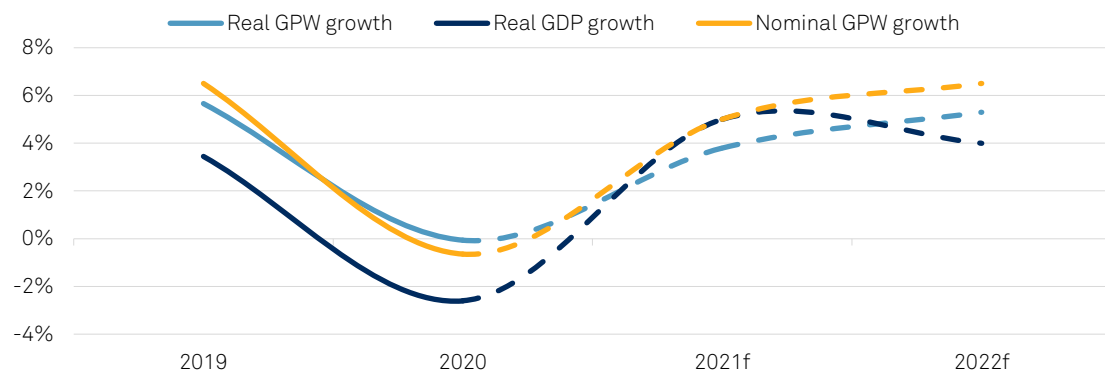


- The competitive nature of the market and the ongoing low interest rate environment **constrain prospective profitability to pre-pandemic levels**, which is weaker than in Switzerland.
- We **consider ROE to be inflated** because of the German life insurance sector's significant reliance on policyholder capital rather than solely on shareholders' funds. In addition, **continuous realized gains from bonds** to finance the additional reserving requirement **inflate ROA**.
- **High levels of guarantees in the back book** and low yields erode the spread between investment income and guaranteed rates, resulting in product risk.
- Changes in insurers' product portfolios and customer demands leave **modest scope for premium growth**. Due to rising inflation, we expect real premiums to stagnate in 2022.

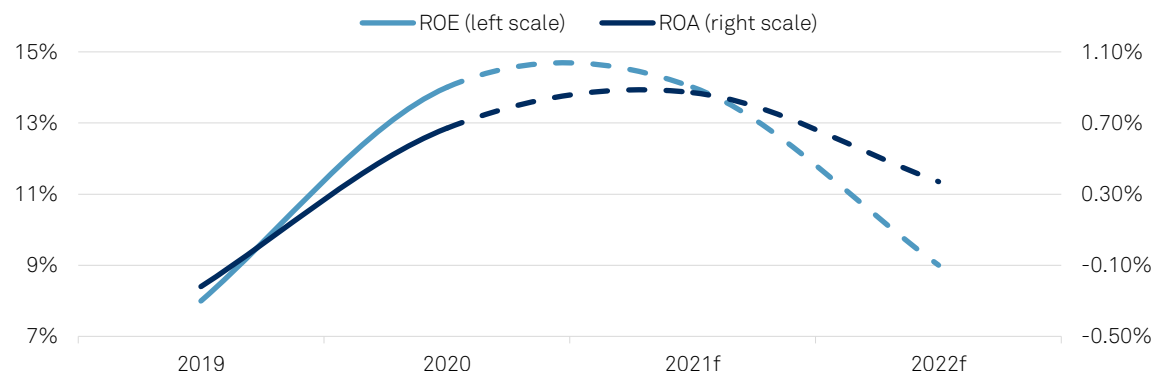
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Israel Life | Sector Benefits From Robust Market Growth Prospects

## Premium Growth Expected To Correlate With The Israeli Economy



## Profitability To Remain Relatively Stable Through To 2022

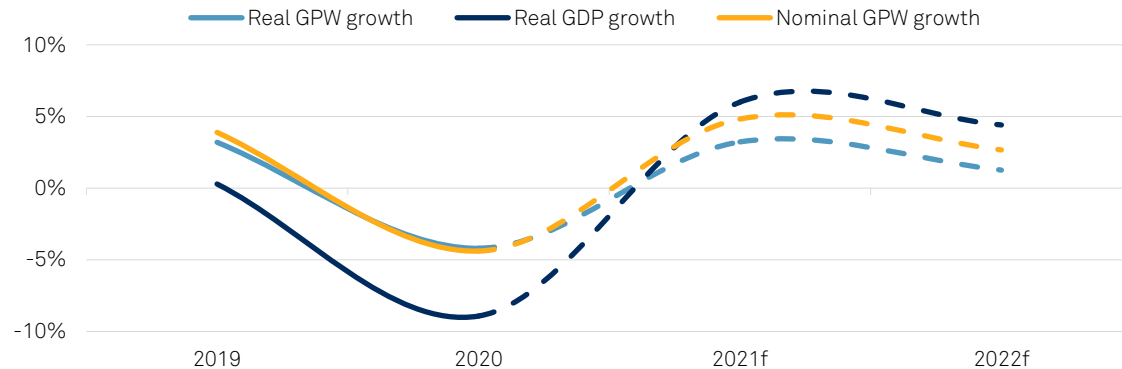


- Israel's **rapid economic recovery** should support premium growth and deposit flows into the life insurance sector and long-term savings activity.
- **Growth** in long-term savings premiums and pension and provident funds **will continue to recover** in 2022 but **will lag the industry's strong historic growth rate**.
- **Profitability remains volatile** and highly dependent on the performance of the capital markets, mainly due to the large portion of products with variable fee mechanisms.
- Regulatory change to LAT calculation **reduces the sensitivity of the sector's accounting profitability** to risk-free yield curve fluctuation. However, the **low interest rate environment will drag on profitability**, mainly through long-term health care reserves adjustments.

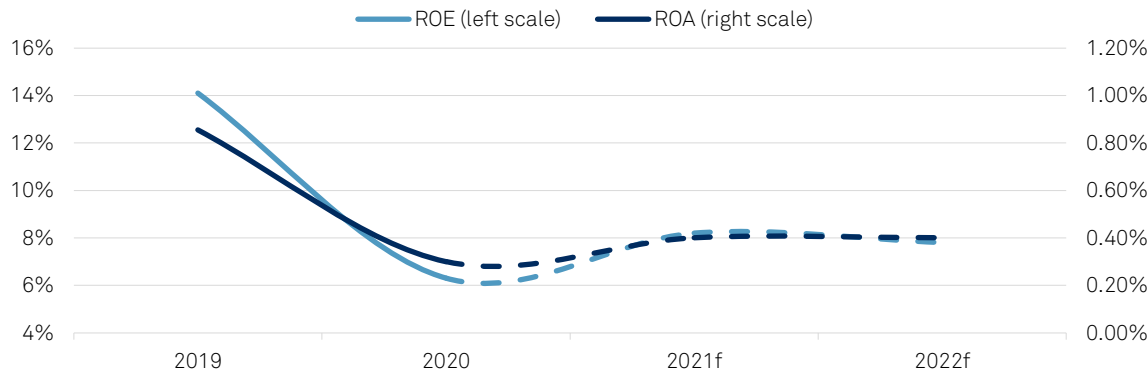
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. LAT—Liability adequacy test. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Italy Life | **Favorable Industry Characteristics**, Notably Decreasing Guaranteed Rates And High Penetration

## Real GPW Growth To Roughly Correlate With Italian Real GDP Growth



## Profitability Metrics To Stabilize Below 2019 Records, Caused By Spread Volatility On Government Bonds

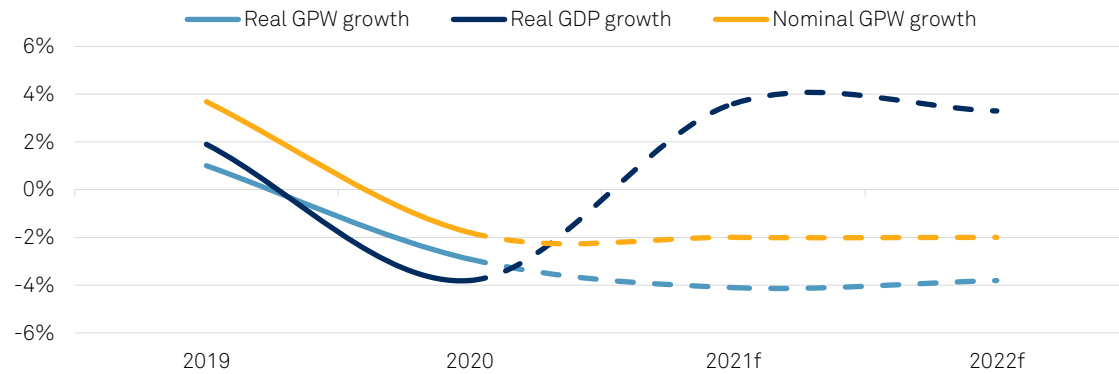


- Despite the shock of the pandemic, the sector's **growth prospects remain favorable**, driven by the attractiveness of returns on life insurance and the perceived safety compared to other investments.
- In the current ultra-low interest rate environment, Italian insurers **benefit from the higher yield on Italian government bonds** compared with other developed EU governments.
- While enhancing returns, the high exposure to **Italian government bonds (just over 40%) increases the volatility** of profitability metrics and solvency ratios.
- Life policies in Italy continue to display **higher structural surrender rates** than in other European markets, but the trend shows a progressive decline that continued throughout the recent uncertain economic environment.

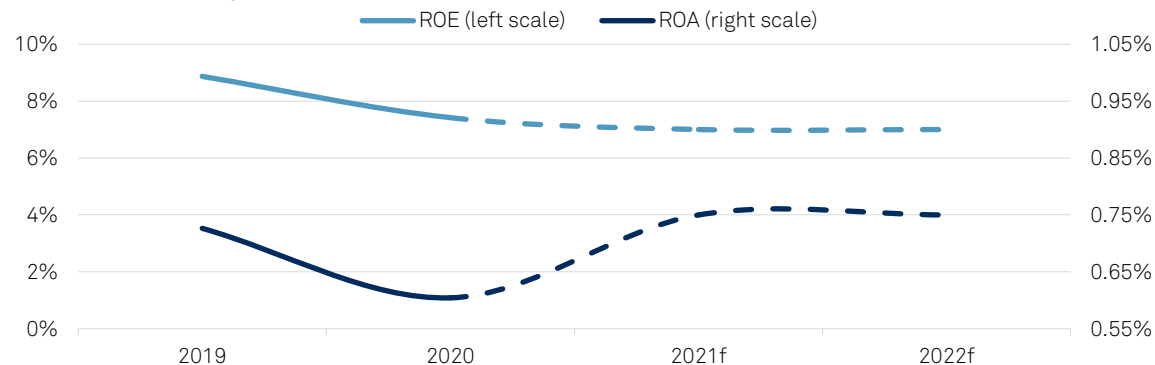
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Netherlands Life | **Relatively Stable Profitability**, Despite Some Guarantees

## Real Premium Growth Is Expected To Lag The Dutch Economy



## Technical Profitability Should Remain At Current Levels, Supported By Investment Income

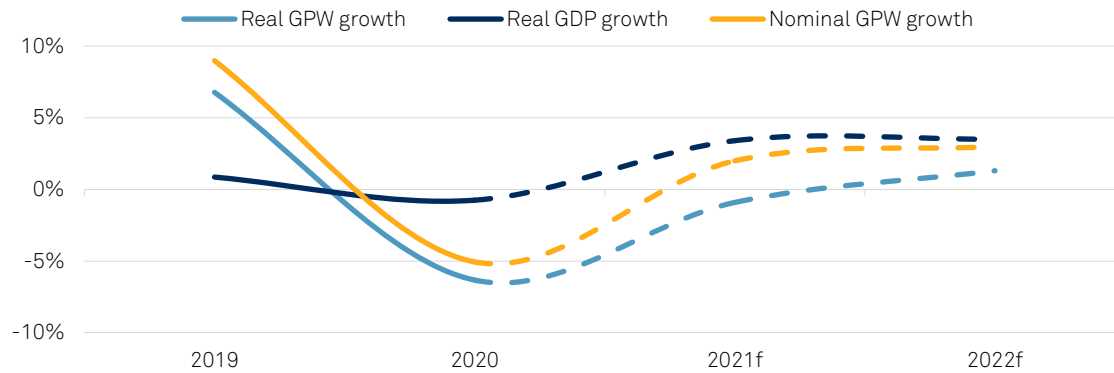


- We expect **premiums to continue declining** through to 2022, partly due to increased **competition from bank savings products** and the loss of confidence following **misselling scandals**.
- **Unit-linked products** in The Netherlands **are rather unpopular** compared to other European markets such as the U.K.
- The traditional **guaranteed business** still comprises about **three-quarters of reserves**, with an average guarantee of 3.0%-3.5%, resulting in product risk as a result of the low yield environment.

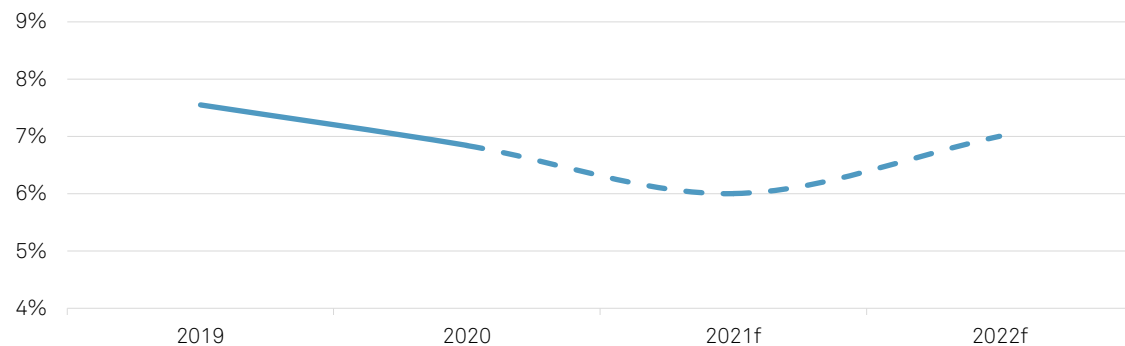
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Norway Life | Stable And Profitable Sector, With **Some Exposure To Guarantees And Investment Risk**

## Transitory Volatility In Growth To Stabilize Through To 2022



## Good And Stable ROE, Despite The Pandemic And Recessionary Environment



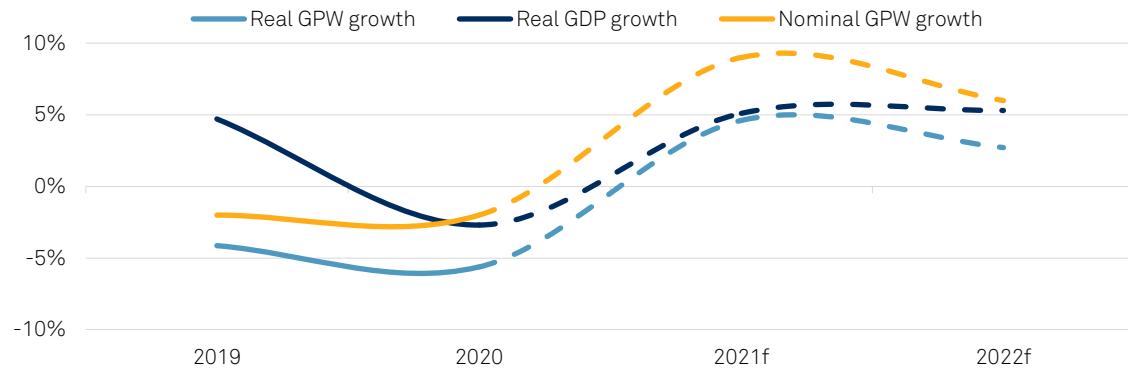
- Despite the impact of low interest rates on returns, the sector is still able to generate **sufficient capital to support moderate balance sheet expansion**.
- Although declining, traditional **guaranteed products remain material**, exposing life insurers to interest rate and mortality risks. This is similar to peers such as Sweden and Germany.
- Norwegian **insurers typically carry some investment leverage** risk from gradually increasing their exposure to equities, equity funds, and alternative investments.
- Norwegian insurers have been among the **leaders in cost optimization**. Together with **increasing fee income** from the sale of capital-light products, this has **supported profits**.
- Insurers **leverage on existing bancassurance channels** to distribute their products, improving operational efficiencies.

GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

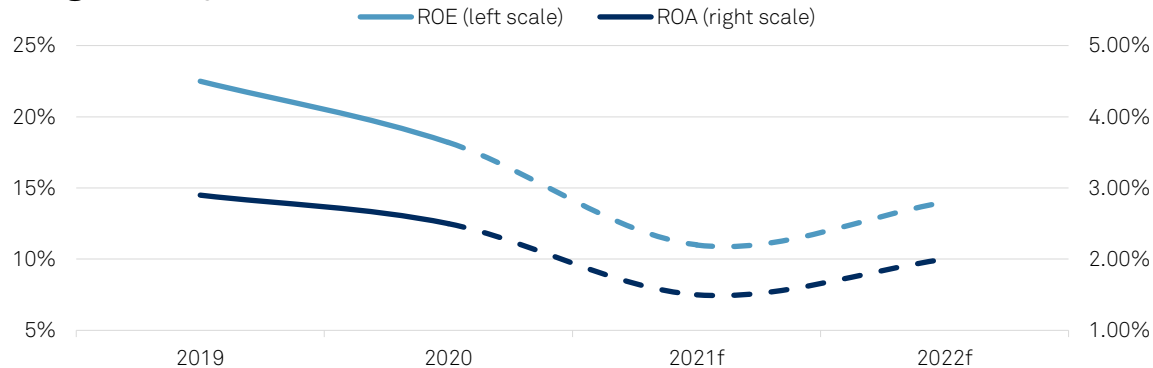


# Poland Life | Higher Mortality Sparked GPW Growth, But Limited Near-Term Profitability

## Real Premium Growth In Line With GDP Growth



## Strong Profitability Is Mainly Driven By PZU, The Undisputed Largest Player

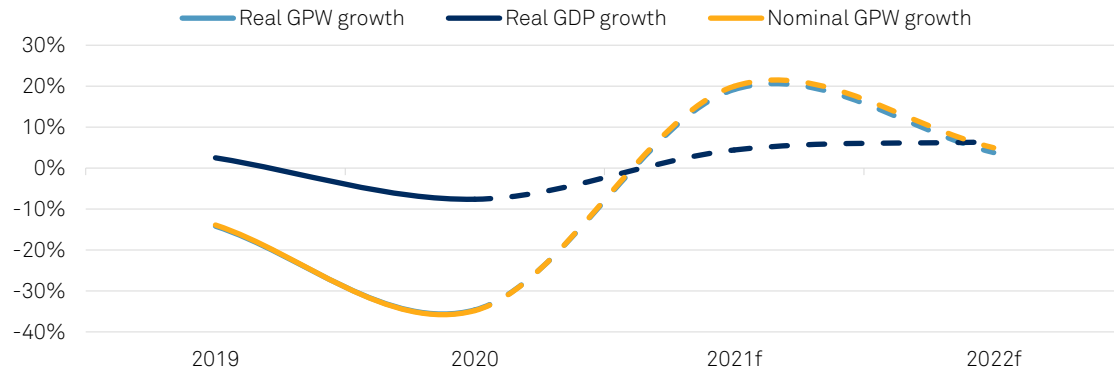


GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

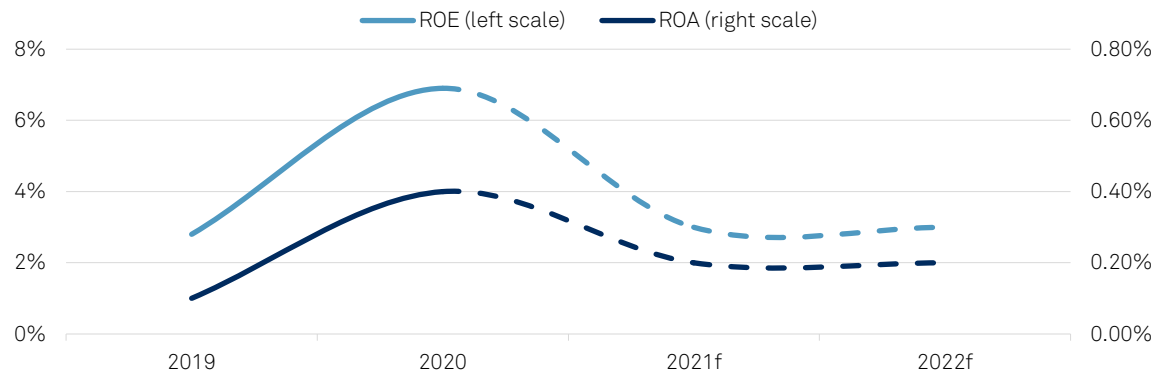
- **Increased mortality** in first-half 2021 strained **the underwriting profitability** of group risk products, with margins decreasing from previously highs. Coupled with lower investment gains and higher operational costs, we expect **profitability to stay materially below 2019 levels.**
- After years of subdued growth in the sector, **higher mortality claims resulted in higher prices for risk protection products** and stronger GPW growth prospects.
- The sector remains exposed to a **significant amount of court litigations related to unit-linked policies sold pre-2014**, which had high fee structures. We expect **ongoing regulatory intervention** on unit-linked products to have limited impact on growth.
- We note that the sector's **performance remains largely driven by its largest player, PZU Zycie.** Excluding it, sector performance would be materially weaker and volatile.
- In comparison to EU insurers, the sector's asset portfolio is among the **most concentrated in local government bonds.**

# Portugal Life | Weak Profitability And Unfavorable Growth Potential Are Constraints

## Material Drop In 2020 Due To A Decline In The Sale Of Traditional Products



## Profitability Is Expected To Remain Weak Into 2022

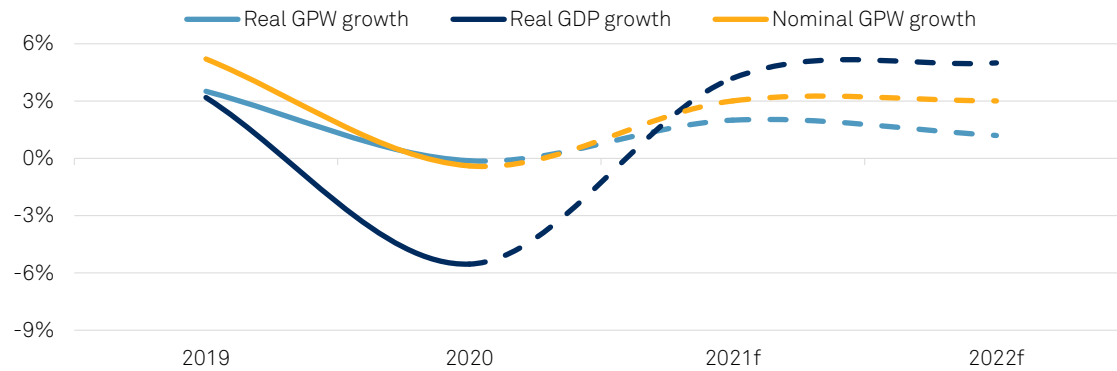


- Reasonable asset-liability duration mismatch, with **limited exposure to mortality and longevity risks**.
- **Volatile profitability** is mainly due to swings in government bond yields, volatile business volume, high lapse rates, and depressed investment returns.
- Traditional life products still make up the majority of reserves. Over the medium term, we expect **growth in unit-linked products to enhance profitability**.

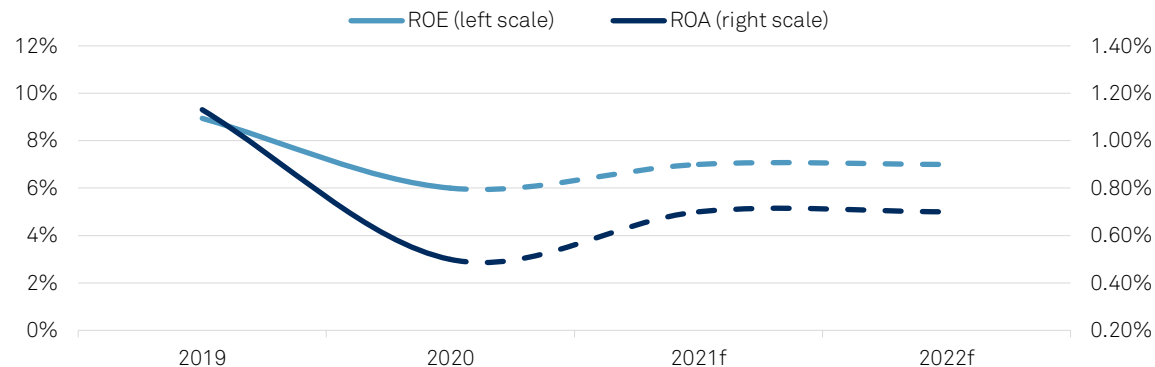
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Slovenia Life | Stable Profitability With Comparably Low Risk From Legacy Guaranteed Life Products

## Premium Growth Supported By Risk Protection And Some Unit-Linked Business



## We Expect Healthy Profitability Through To 2022

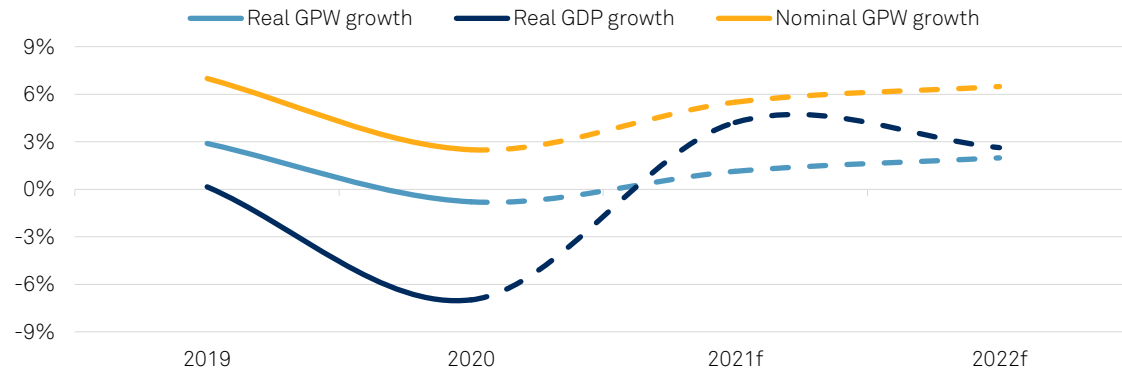


- COVID-19 mortality did not influence profitability in the life sector. Nevertheless, we expect **profitability to remain below historic highs** because of COVID-19-related measures, lower investment gains, and higher operational costs.
- The sector's product mix has **modest exposure to traditional guaranteed products**; therefore it is less exposed to low interest rates compared with Austria or Germany.
- The sector **retains robust capitalization**, though the increased capital base resulted in lower ROE in 2020. We expect capital positions to remain stable in 2021-2022.
- Slovenia's membership of the eurozone allows the sector to have a **considerably more diversified asset portfolio**, with lower exposure to government bonds than the European average. The sector also maintains a conservative level of investment risk.

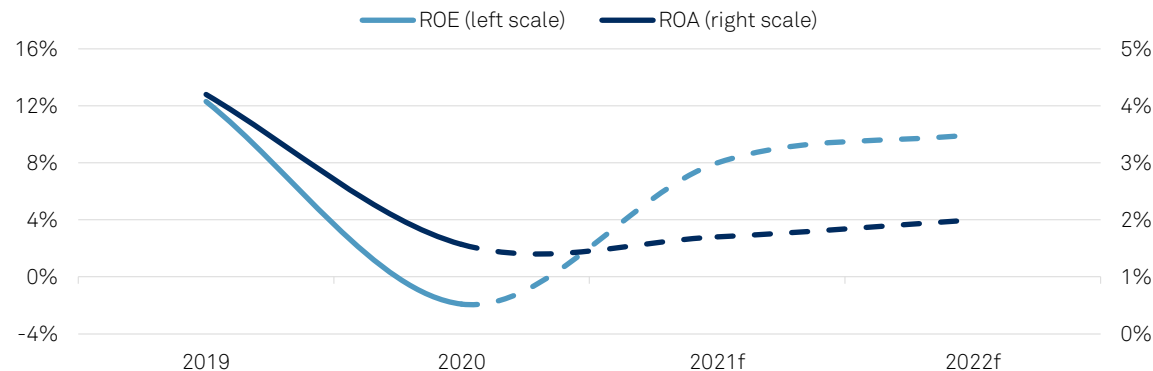
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# South Africa Life | Resilient Profitability Despite **Clouded** Macroeconomic Conditions

## The Mature Life Industry To Expand In Line With The Wider South African Economy



## Profitability To Recover To Pre-Pandemic Levels

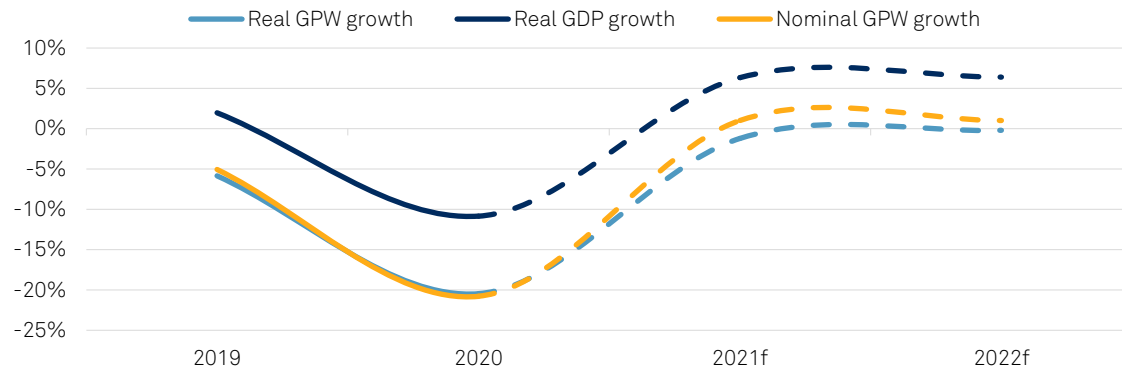


- Additional provisions due to mortality-related losses hindered **profitability for 2020 and 2021**. We expect **profitability to recover in 2022**, though weak prospects for growth and high competition levels will constrain profitability in the medium term.
- The relatively **limited real premium growth potential** is due to structurally high levels of unemployment and low economic growth rates of 1%-2.5% anticipated in 2023-2024.
- **Low asset quality** increases counterparty credit risk, notably through exposure to government bonds and government-related entities.
- The market benefits from **significant risk-sharing mechanisms** within investment-type products, **limiting product risk** and earnings volatility for South African insurers.

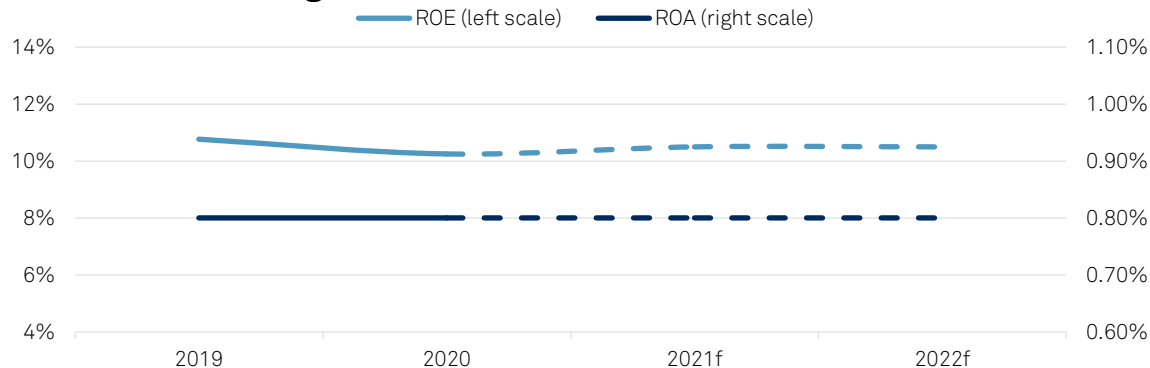
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Spain Life | Profitable Sector Despite Limited Premium Growth Opportunities

## Growth Prospects Constrained By Limited Switch To Unit-Linked Policies



## Sector Enjoys Relatively Good And Stable Profitability, Albeit Below Historic Highs

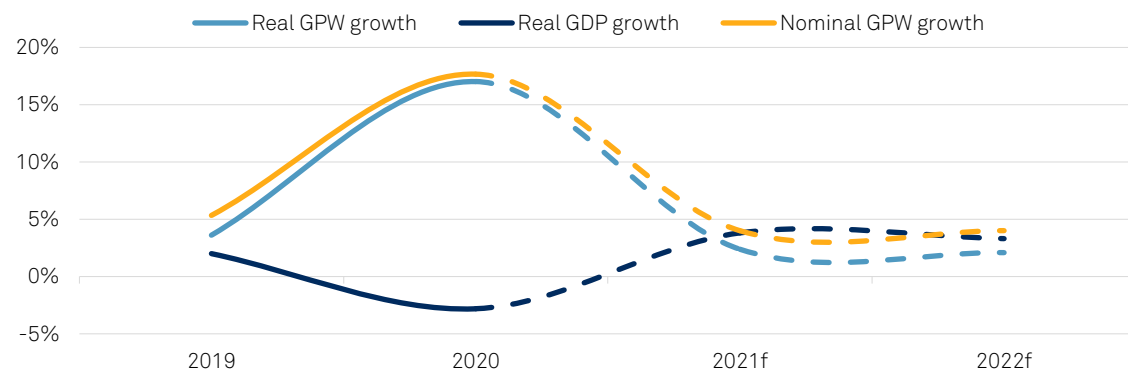


- **Premium growth remains weak** because guaranteed savings products have lost their attractiveness, unit-linked products show weak growth, and banks continue to prioritize the sale of bank savings products to their vast customer bases.
- The **sector has consistently been profitable**, in good times and bad. The regulator's requirement to closely match assets and liabilities has partly helped, as it reduces interest rate risk. We expect the sector's profitability to remain stable in 2022.
- Because of COVID-19-related measures, lower investment gains, technical reserve increases, and higher operational costs, **profitability should remain below historic highs**.
- Spanish insurers have **reduced the guaranteed rates** on new business to match the investment environment. However, the **average back book guarantees remain higher than peers**.
- Spanish insurers have a **higher exposure to government bonds than the European average**.

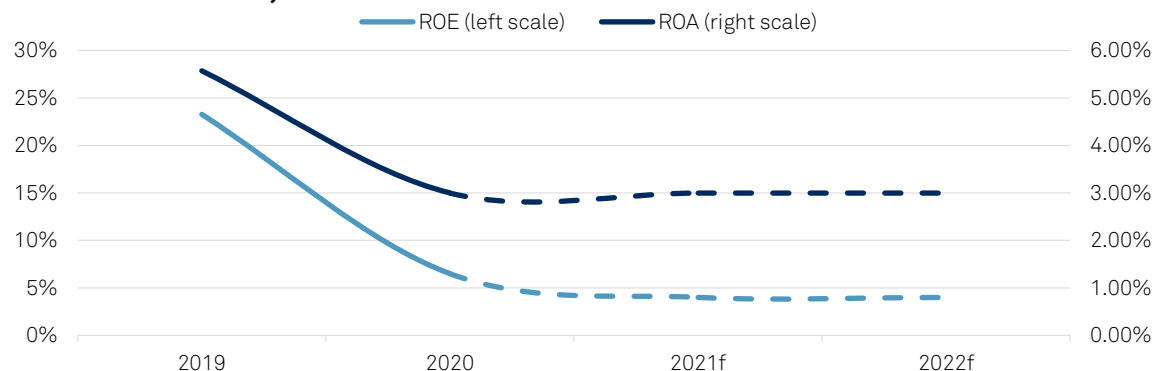
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Sweden Life | Good Profitability With High Exposure To Equities

## Premium Growth To Continue As Economic Conditions Improve



## ROE Volatility Attributable To High Exposure To Equities And Unrated Bonds, Which Have Performed Well In Recent Years

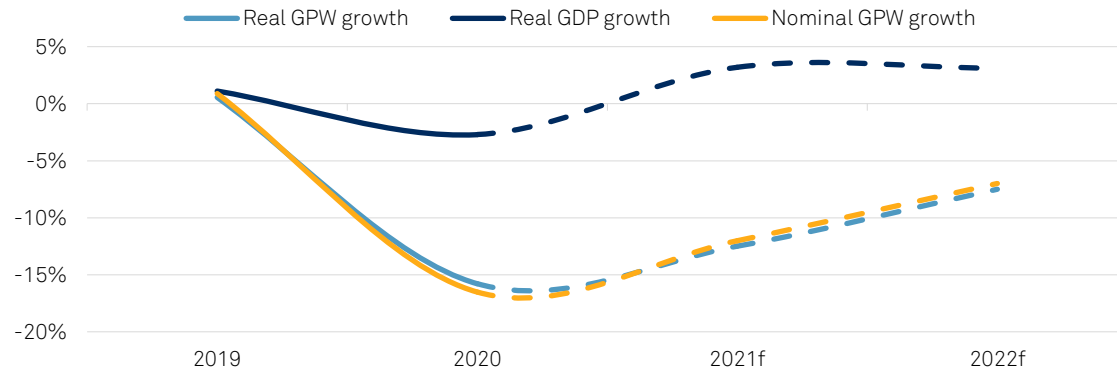


- Very strong premium growth in 2020 is due to the **increase in working population**, which positively impacts occupational pensions. The increase in salaries and **demand for endowment insurance** have also contributed to this.
- **Resilient performance despite pandemic**—induced economic contraction and financial market volatility.
- Traditional **guaranteed policies** (rates around 2%) **make up nearly one-half of insurers' total portfolios**, although insurers are actively shifting toward more capital-light products.
- Swedish insurers typically have investments geared toward high-risk assets. **Equities make up around 40% of invested assets.**
- Because of a lack of domestic bonds to match the duration of local currency liabilities, insurers buy foreign assets to match their liabilities, resulting in **foreign exchange risk.**

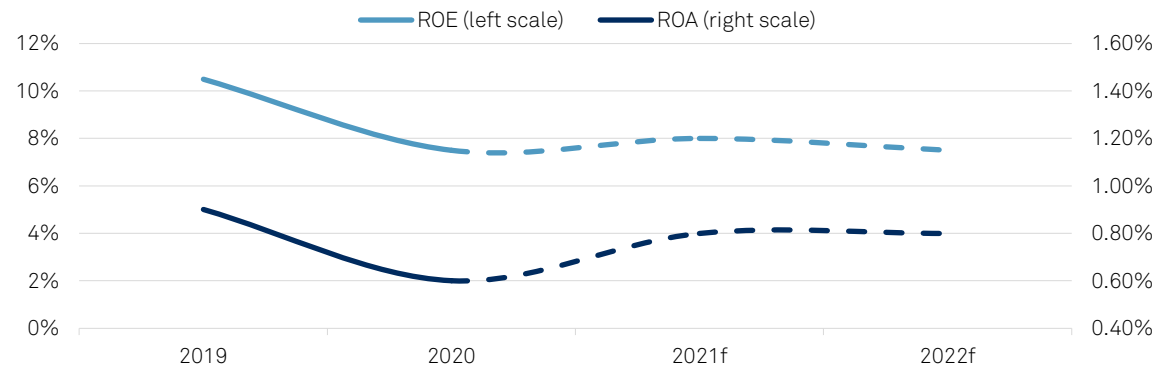
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Switzerland Life | Satisfactory Profitability Levels With **Relatively Lower Guarantees Than European Peers**

## The Mature And Stable Market Offers Little Opportunity For Real GPW Growth



## Profitability To Moderate Following One-Off Positive Tax Reforms In 2019



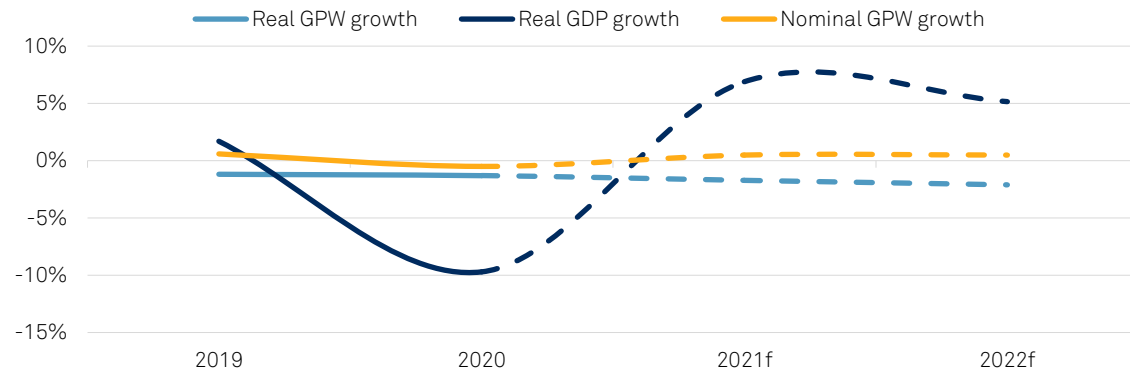
- **A strong premium decrease** in 2020 reflects a **gradual shift** from traditional group life business to semi-autonomous products that typically carry fewer premiums, since policyholders bear the asset risk. **We expect this trend to continue in 2022.**
- Despite having one of the lowest interest rates in Europe, **the market remains profitable**. This reflects the **flexibility to adjust guaranteed rates** in the group life back book, and the **early adoption** of products with **low interest rate sensitivity**.
- That said, while the margin between investment yields and average guarantees has been relatively stable, **pressure from negative yields remains a key challenge**.
- The **conversion rate**, which is relatively high compared to the current interest rates, **adds some longevity risk** to the mandatory group life business.
- Insurers have a relatively **high exposure to property** investments.

GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. The conversion rate is the rate used to convert retirement assets into an annual pension payment to policyholders. Source: S&P Global Ratings.

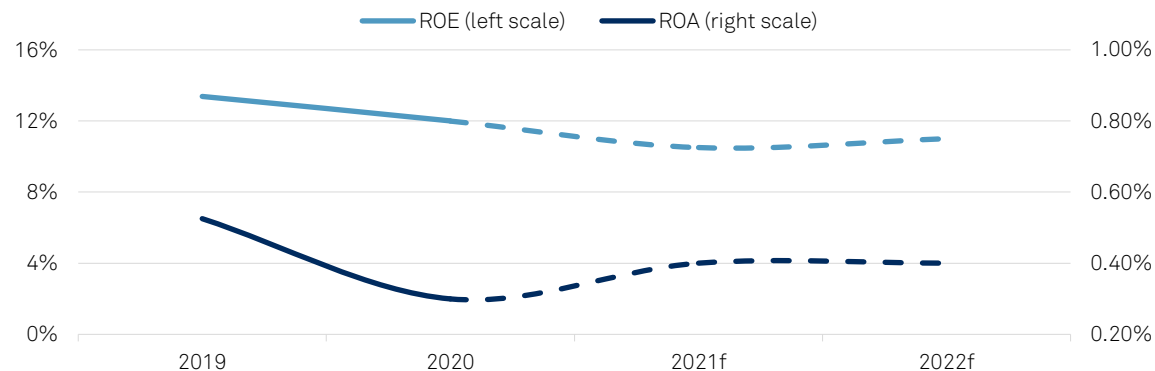


# U.K. Life | The Large Portion Of Fee-Based Operations **Supports Profitability**

## Sluggish Top Line Growth Could Pressure Underwriting Profits



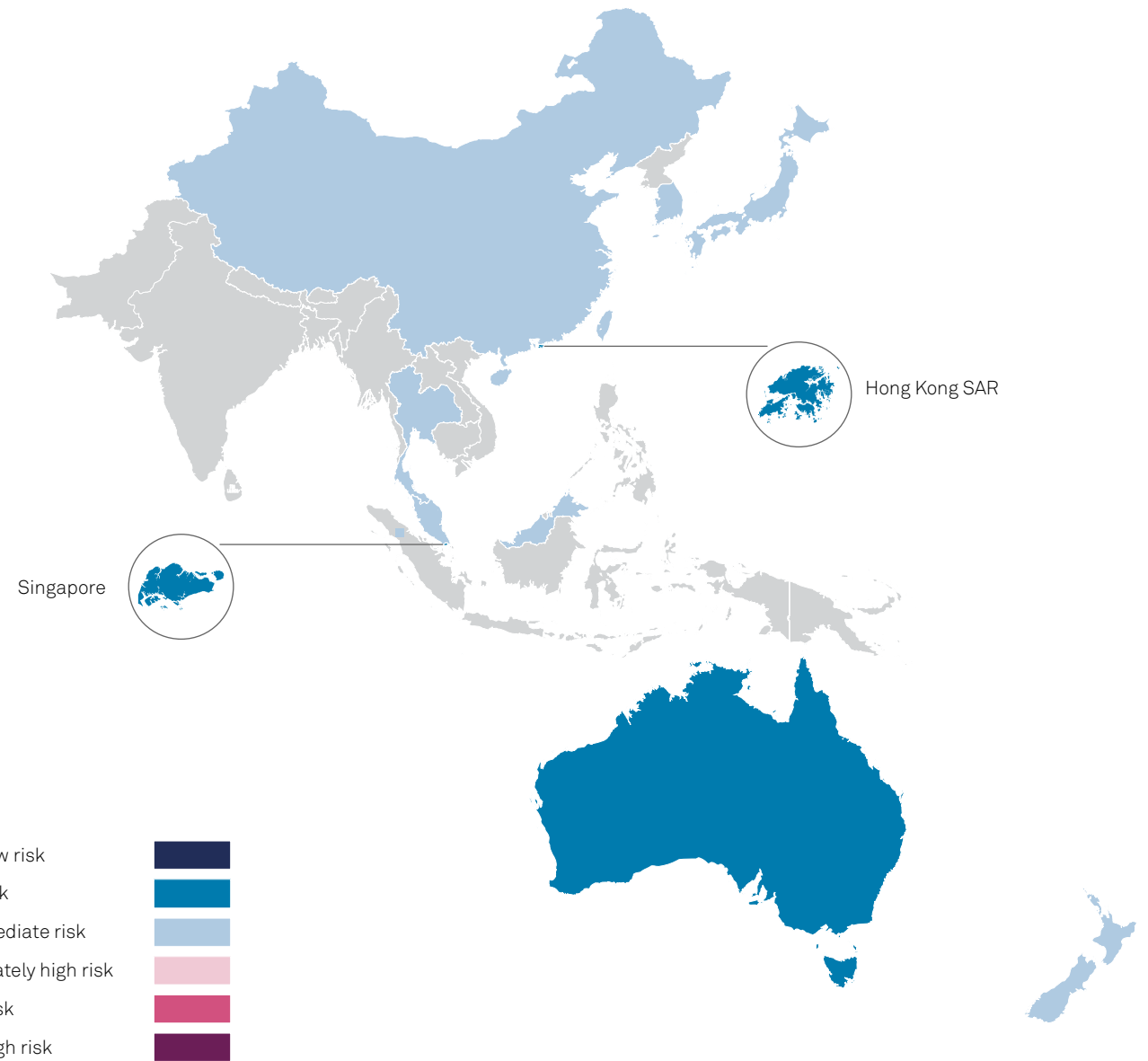
## We Expect A Mild Recovery In Returns Over 2021-2022



- COVID-19-related lockdowns and volatile financial markets have somewhat **dented demand in the U.K. life insurance sector**.
- **Uncertain investment returns** and management fees as a result of very low interest rates and choppy credit conditions could impact future profitability.
- The **demand for bulk annuities and equity release mortgages** should support prospective growth opportunities in the market.
- U.K. life insurers typically have **low exposure to traditional guaranteed products**, meaning the sector faces lower risk from interest rate fluctuations compared with European peers.
- That said, **exposure to longevity risks is high**, even though the industry has recently benefited from reserve releases due to a fall in the rate of life expectancy growth.

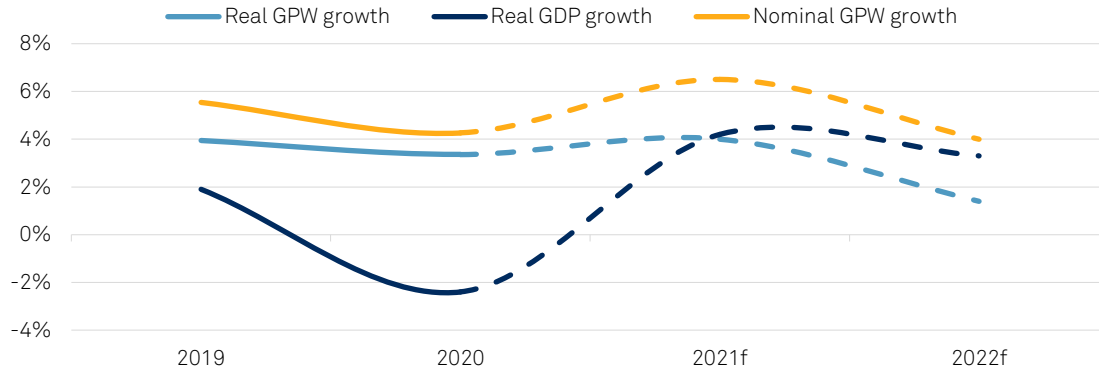
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# APAC P/C

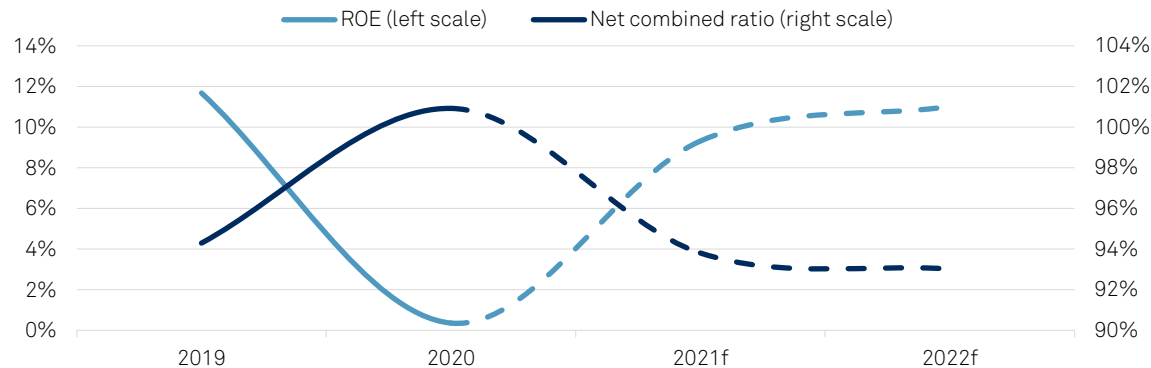


# Australia P/C | Strong Operating Performance And Sophisticated Pricing **Moderated By BI And Exposure To Physical Risks**

## Price And Volume Increases Support Moderate Real GPW Growth



## Profitability To Recover Following 2020 BI Reserve Dip

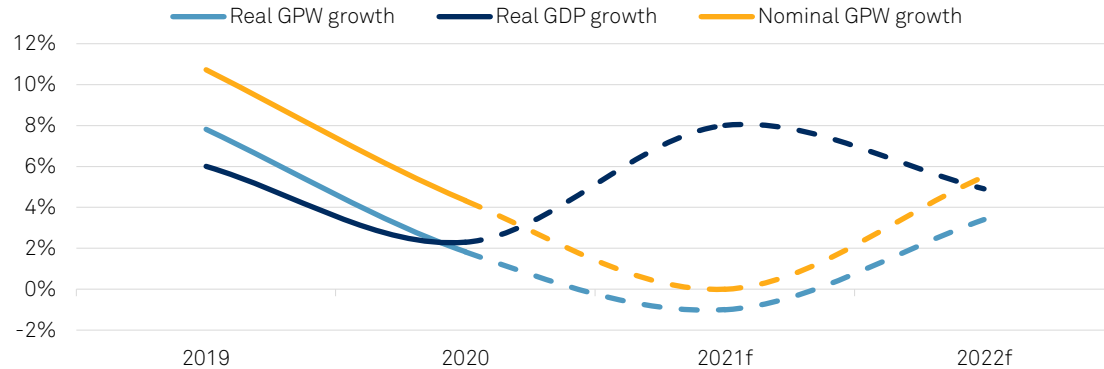


- Significant **pandemic-related business interruption (BI) reserving**, and, to a lesser extent, **natural catastrophes claims affected 2020** underwriting performance. We expect a rebound in earnings to continue in 2022, with stronger economic conditions supporting some growth in units and the full run rate on premium increases, particularly in personal and longer-tail lines.
- Strong performance is also attributable to good technical pricing, **enhanced risk selection**, and **well-structured reinsurance arrangements**.
- **Business interruption claims** from the pandemic **remain uncertain**, will likely rely on policy interpretations, and may take some time to resolve.
- Domestic **natural perils contribute to some earnings volatility** through higher gross claims, with recent events spanning cyclones, flooding, bushfire, severe weather and storms, and relatively low-level earthquakes, although **reinsurance covers have mitigated the impact**.

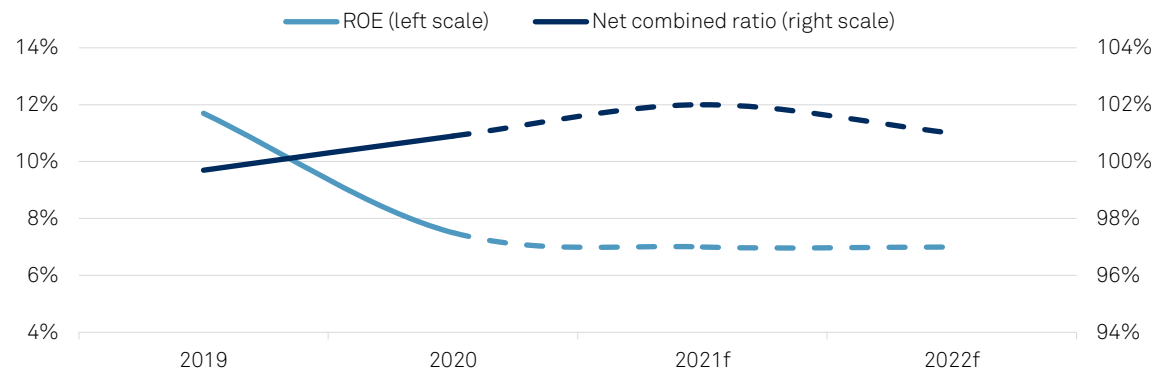
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# China P/C | Strained Underwriting Results And Sensitivity Toward Investment Risk Signal Earnings Volatility

## Shift To Non-Auto Lines To Moderate Overall Topline Volatility



## Pressure On Underwriting Results Will Continue In 2021-2022

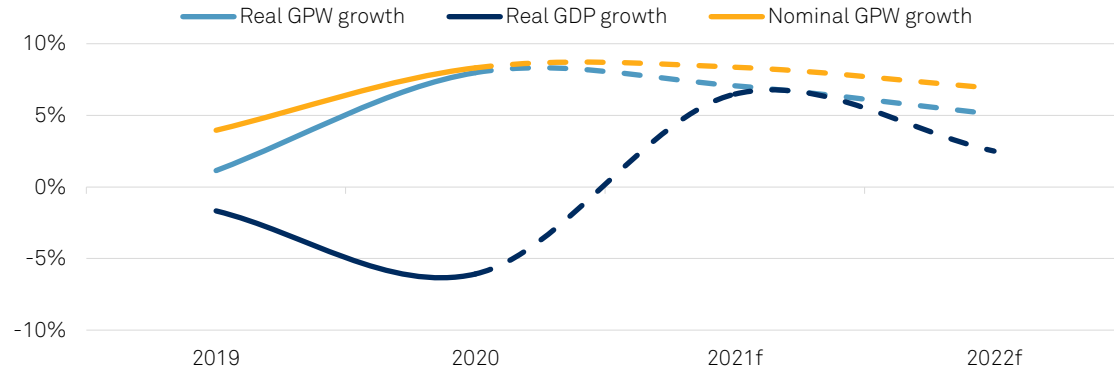


- **Credit trends remain largely negative for Chinese P/C insurers**, reflecting strained underwriting results.
- **Comprehensive auto insurance reform** cuts premium rate and underwriting margins of the sector's dominant product line.
- **Growth in non-auto lines** moderates the sector's overall topline volatility. However, still-limited underwriting expertise and technical pricing constrain insurers' ability to underwrite non-auto coverages profitably, particularly around commercial business lines.
- **Exposure toward high-risk asset will remain high**, reflecting the need to boost investment income to compensate underwriting pressure.

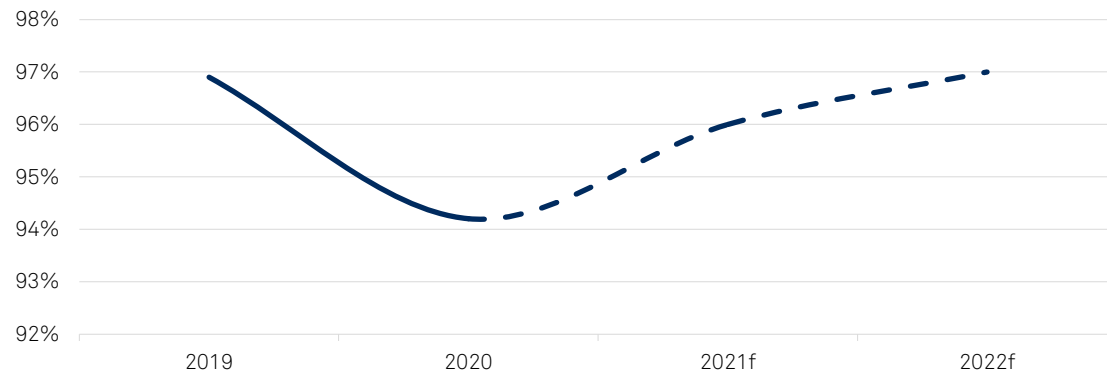
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. Actual figures for 2019-2020 represent approximately 80% market share. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Hong Kong P/C | **Strong Underwriting Results** Despite High Fragmentation

## Strong Growth In 2020 Largely Driven By Property Damage And Mortgage Lines



## Strong Combined Ratios Somewhat Narrowed By Increased Compliance Costs

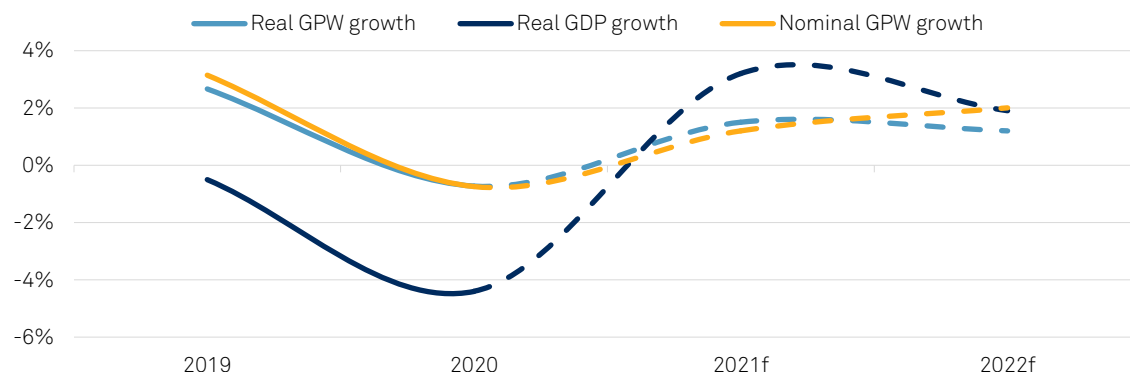


- **Sustained premium growth in 2021-2022**, supported by favorable rate developments in major lines (in particular, property damage) and resumed economic activities.
- Regulator's tightening oversight will prompt disciplined underwriting, supporting the sector's **strong underwriting results**. This is despite **high market fragmentation**.
- **Effective reinsurance arrangements** will protect the sector against volatility from products risks, notably typhoon events.
- Amid increasing regulatory oversight, we anticipate **higher compliance costs, which may narrow profit margins**.

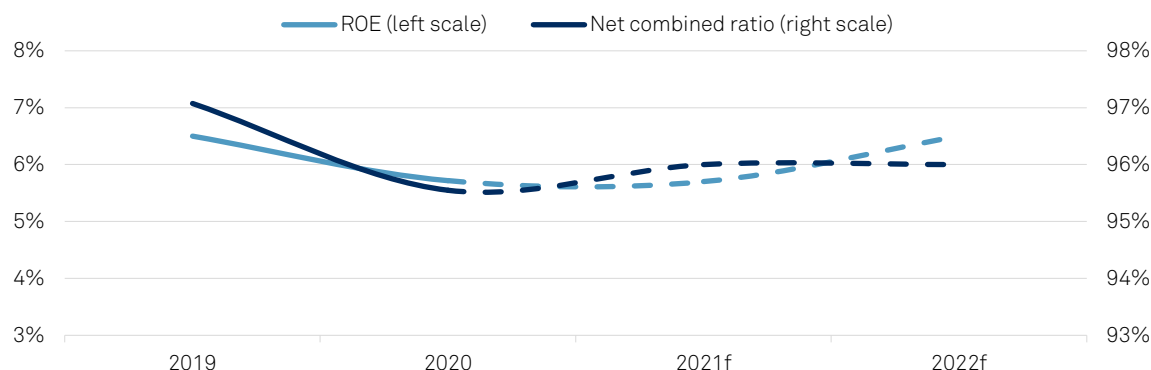
P/C—property/casualty. GPW—gross premiums written. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Japan P/C | Material Exposure To Physical Risks

## GPW Growth Along With Pandemic Recovery



## Stable Profitability But Sensitive To Natural Catastrophe Events

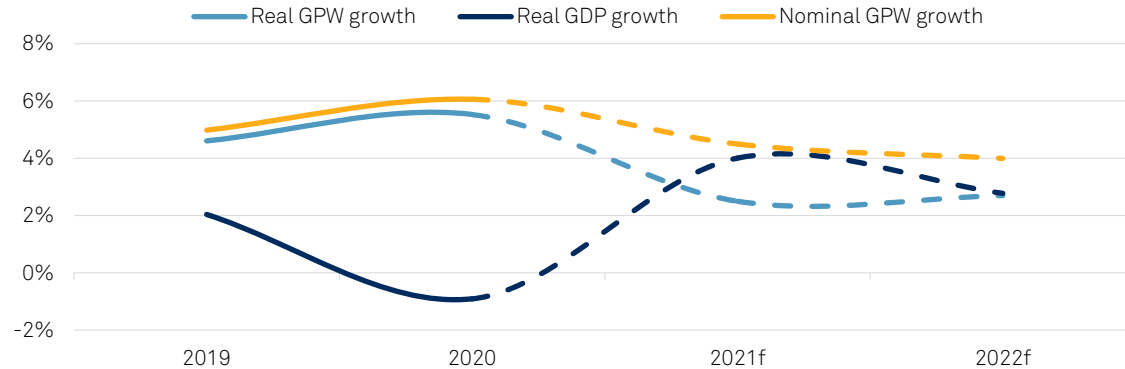


- **Improved economic activities and underwriting price increases** in the fire insurance product will support GWP growth in 2021-2022.
- We expect relatively **stable operating performance** in 2021-2022, underpinned by rising underwriting prices and normalized catastrophe events, despite higher reinsurance costs, lower investment income, and an increase in motor claims.
- Japan's P/C sector is **materially exposed to potential earnings volatility** associated with high levels of natural catastrophe risk.
- In addition to natural catastrophe risk, industrywide **profitability is sensitive to financial market movements**.

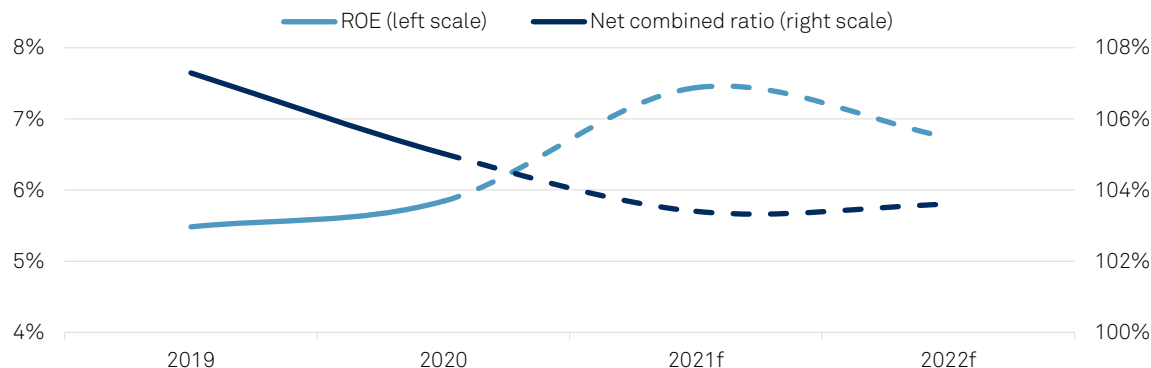
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Korea P/C | Adequate Underwriting And Pricing Strategy Underpin Largely Stable Profitability

## Resilient Premium Growth, Despite The Pandemic



## Underwriting Performance To Stay Largely Stable



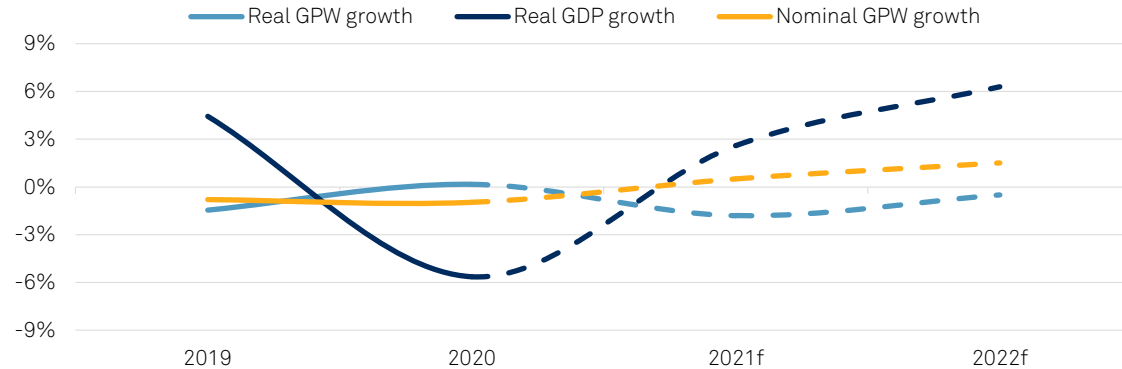
- The P/C insurance sector's **profitability will stay largely stable** backed by insurers' continuing focus on adequate underwriting and pricing strategy. Rising domestic interest rates will also be **supportive of their investment returns**. These will likely mitigate some pressure on the loss ratios of auto insurance policies amid an increase in traffic.
- Gradual economic recovery and hikes in premium rates for medical indemnity policies will support premium growth.
- Korean P/C insurers have **limited catastrophe exposure** with effective reinsurance protection.
- Korean P/C insurers are **exposed to potential credit risks** stemming from their investment in **less liquid loans and securities with alternative investment features**.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

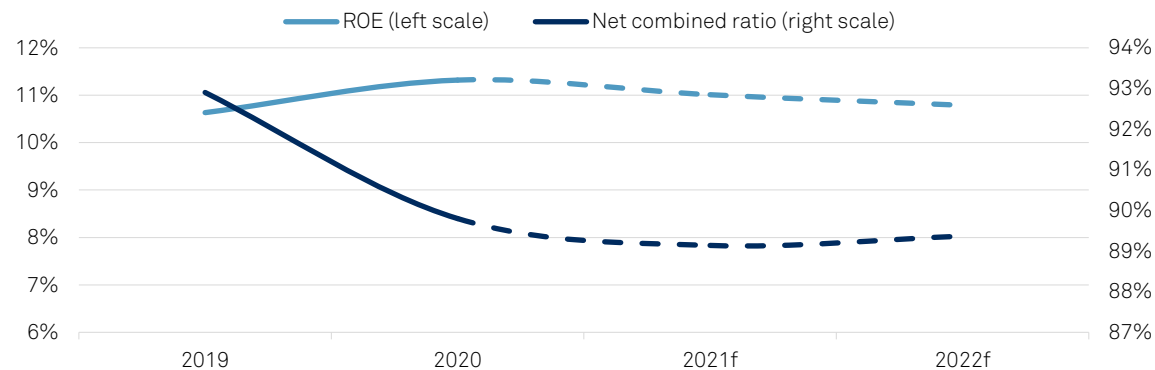


# Malaysia P/C | **Resilient Profitability** With Slower Growth Prospects Amid Challenging Economic Environment

## Limited Premium Growth Owing To Competitive Market Conditions



## Stable Combined Ratios Through To 2022

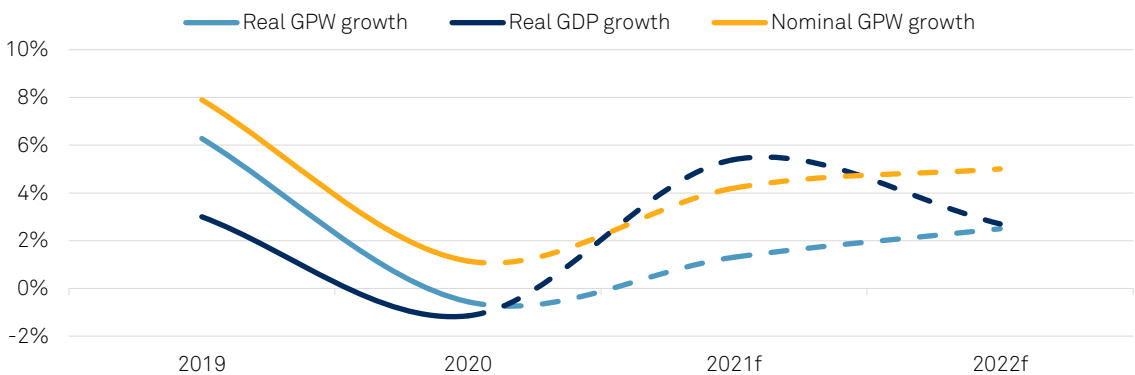


- Sector's prospective profitability **remains stable**, benefitting from **underwriting discipline** and **steady investment income** with manageable flood risk.
- **De-tariffication efforts in motor and fire** allow risk-based pricing, which will help to improve profitability in the longer term.
- **Premium growth remains subdued**, reflecting **negative sentiment on consumer spending amid slow economic recovery**, which has been undermined by the worsening domestic COVID-19 situation in 2021. In addition, the **competitive market conditions** stemming from de-tariffication are likely to further limit premium rate hikes in the short term.
- **We expect an increase in demand for health insurance** products thanks to greater awareness post-pandemic and government initiatives to **increase financial literacy**.

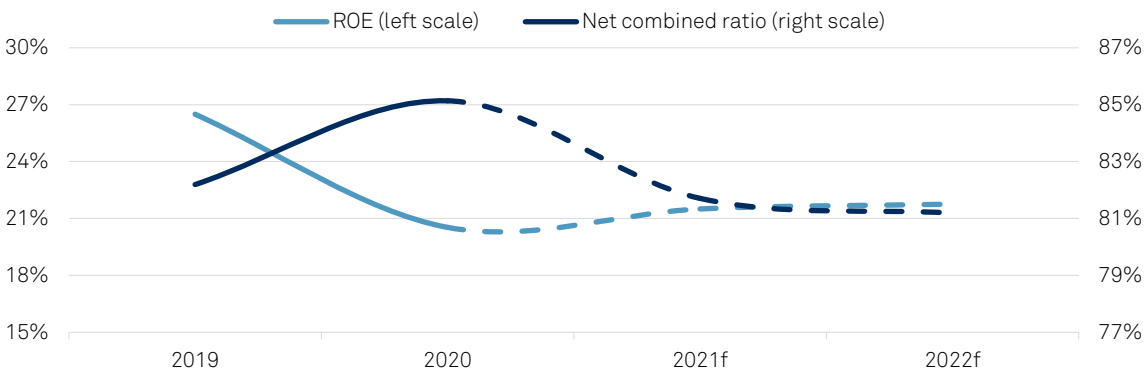
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# New Zealand P/C | Market Expected To Sustain **Strong Profitability Levels And Stable Returns**

## Premium Rebates Offered In 2020 Resulted In Declining GPW



## We Expect The P/C Sector To Perform Strongly Over The Next Two Years

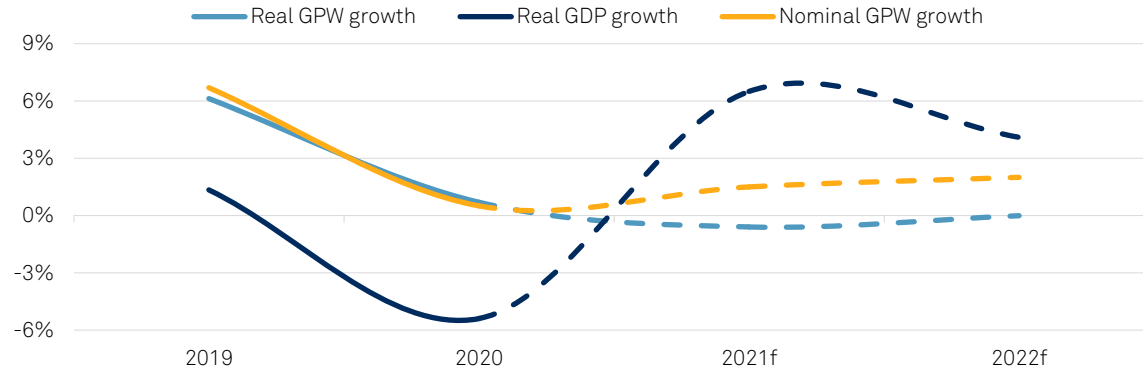


- We expect **premium growth to be in line with GDP**, supported by moderate rate increases in 2021-2022.
- The sector was **resilient in 2020**, with no material impact from COVID-19. This was mainly due to local P/C insurers' **limited exposure to the most affected lines**, as well as the government's success in containing the virus.
- Lower frequency claims in motor insurance due to lockdowns enhanced profitability, but **much of this benefit was offset by the premium refunds** and rebates extended to policyholders.
- We expect **future catastrophes would affect profitability**, although this risk is moderated by proven access to reinsurance capacity, with insurers increasing coverage since the Christchurch and Kaikoura earthquakes.

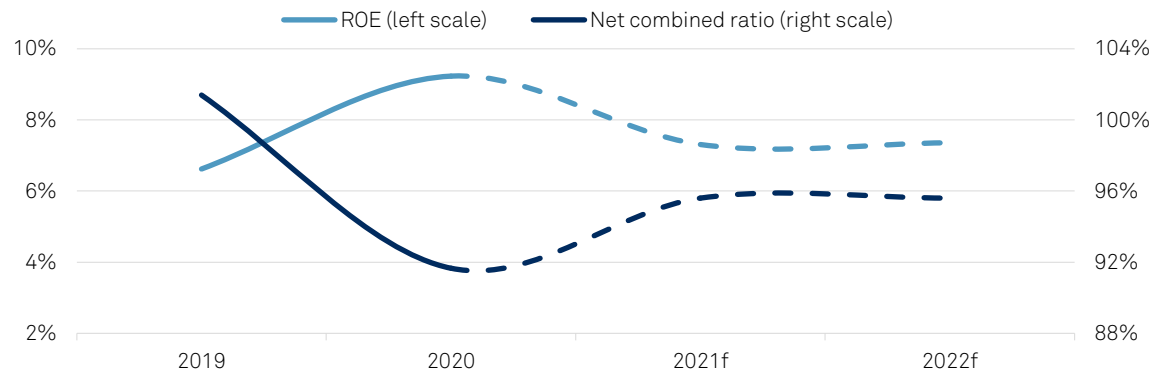
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Singapore P/C | Mature Domestic Market With **Stable Underwriting Results**

## Subdued Premium Growth Owing To Competitive Dynamics



## Relatively Modest ROE With Strong Capital To Offset Slower Growth

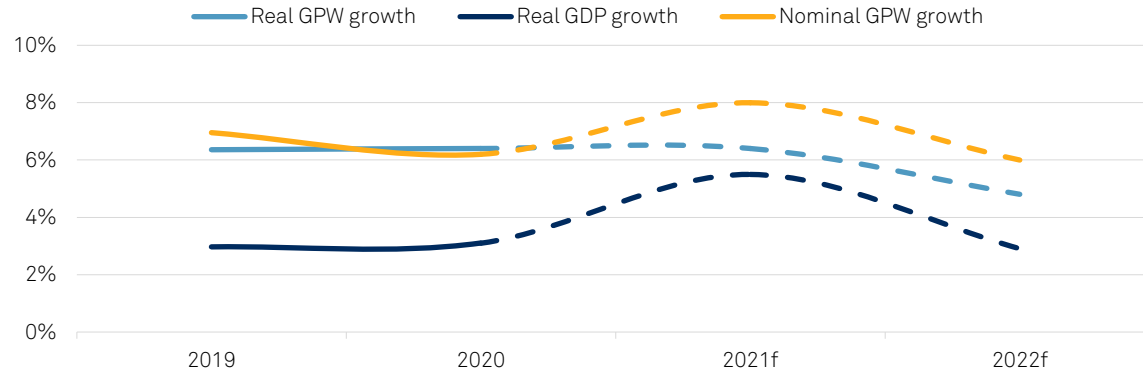


- Sector benefits from **underwriting discipline, conservative asset allocations, and a highly regarded regulatory framework.**
- **Prospective profitability to return to pre-2019 levels**, given slower premium growth prospects and slightly higher claims and costs. This is due to the gradual resumption in business operations, eased movement restrictions, and a reduction in government support schemes.
- **Subdued premium growth through 2022** reflects slower increase in motor (owing to a reduction in car sales) and a modest increase in other segments such as property, engineering, and health amid competitive market conditions.

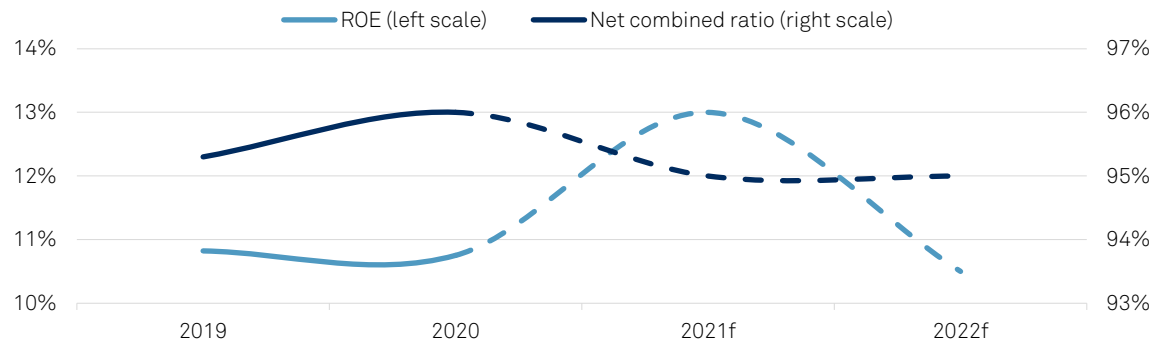
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Taiwan P/C | Strong Underwriting Results And Growth Prospects, Offset By Exposure To Physical Risks And Equity Investments

## Mid-Single-Digit Premium Growth, Supported By Continuous Economic Expansion



## Strong And Stable Underwriting Profits Expected To Be Sustained

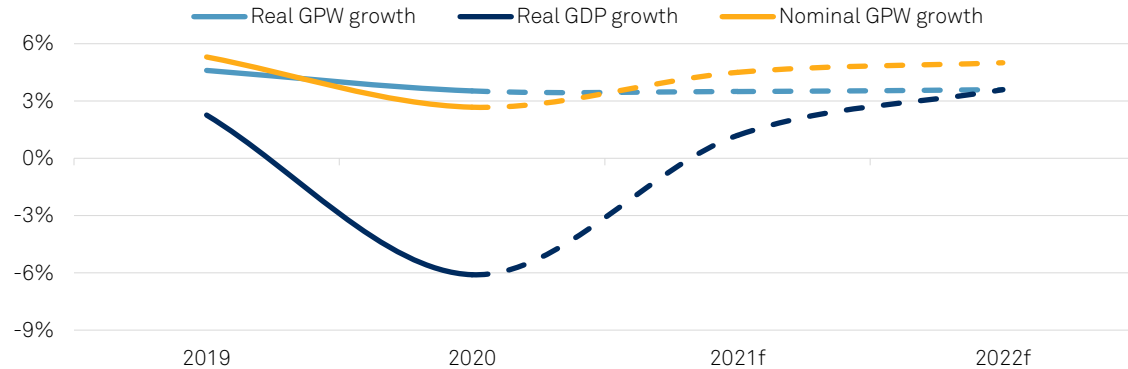


- The government's **effective COVID-19 containment measures** have helped the economy to weather the pandemic better than many peers in 2020, which supported P/C insurers.
- **Premium growth supported by stable demand** for auto insurance and the newly launched pandemic-related insurance products. Price increases for motor third-party liability and commercial fire insurance also aid the growth.
- We expect insurers' **prudent underwriting practices** to help preserve the sector's strong combined ratio performance. Stable investment returns also support profitability.
- **Taiwan is in a catastrophe-prone area**; however, the local insurers purchasing **sufficient reinsurance** mitigates this risk.

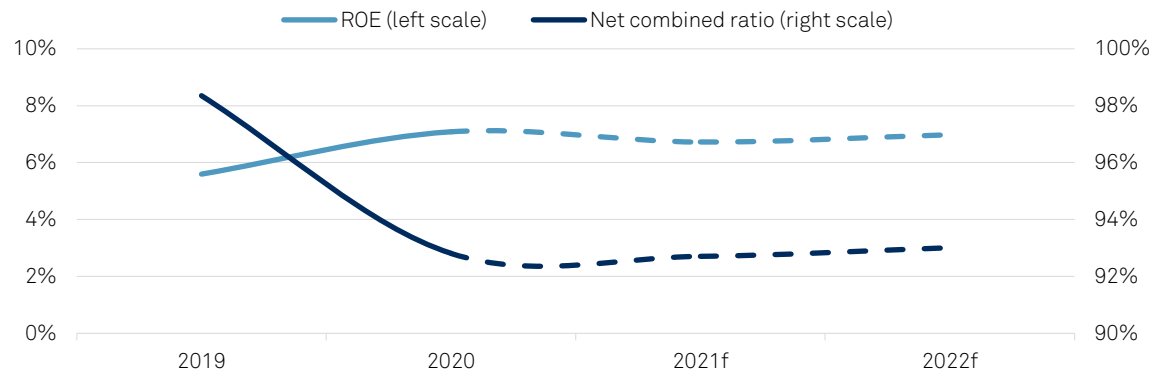
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Thailand P/C | Stable Profitability With **Modest Premium Growth Expectations**

## Moderate Premium Growth Prospects Over 2021-2022



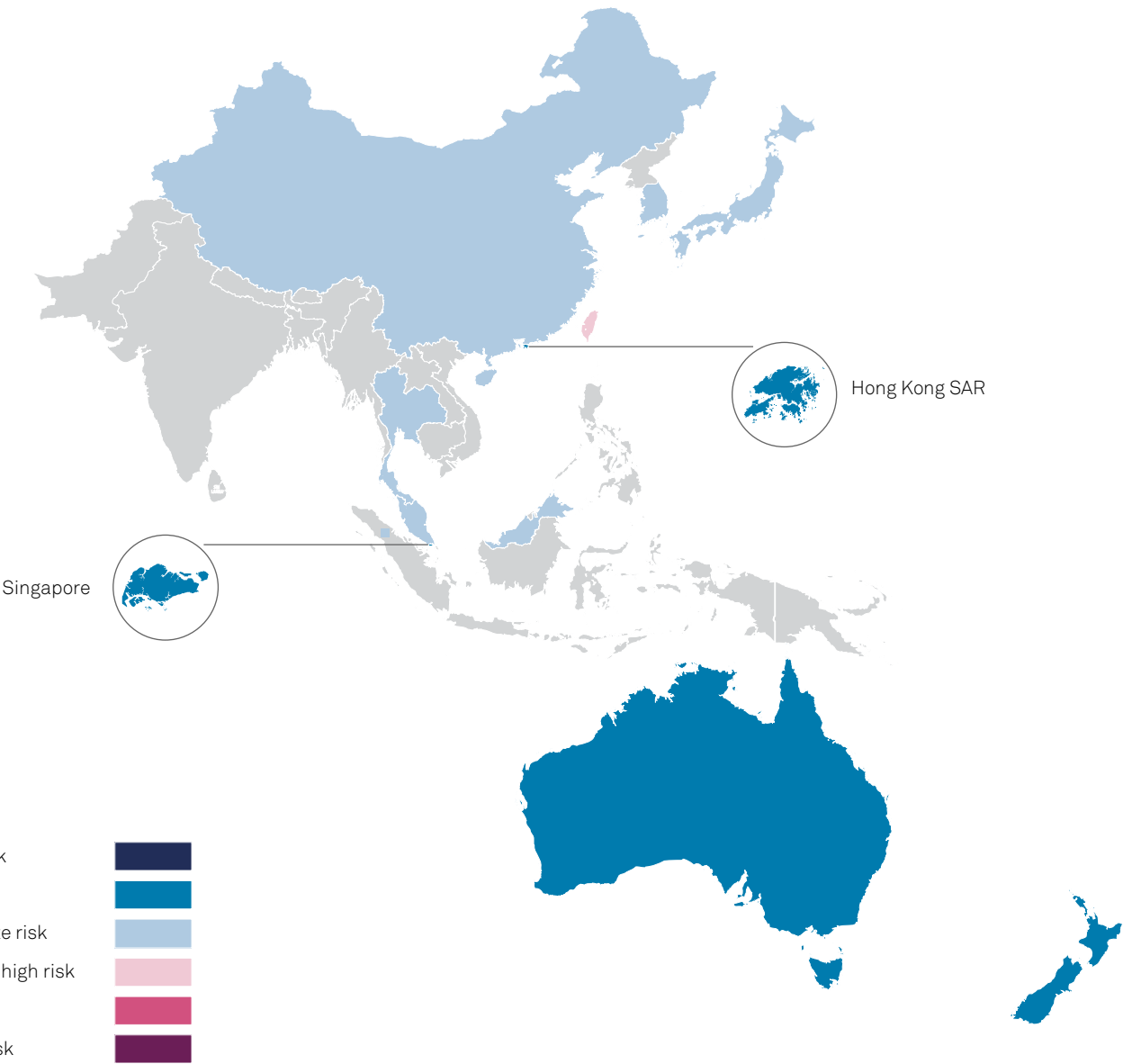
## Combined Ratios To Remain Stable



- Slower economic activities result in lower claims on key lines of business (such as motor). Hence, we expect **stable sector profitability through to 2022**, as the surge in COVID-19 claims and inadequate pricing will likely offset this, which could lead the fragmented industry towards greater consolidation.
- Thai P/C insurers' **profitability remains sensitive to flood risk**. However, **improved risk monitoring and management** have been apparent over the years.
- **Moderate premium growth** as the economic recovery remains slow, with **travel restrictions** continuing to impact Thailand's **tourist-dependent economy**.
- **That said, the government's commitment to** national projects and the rollout of economic stimulus will **fuel prospective premium growth over the longer term**.

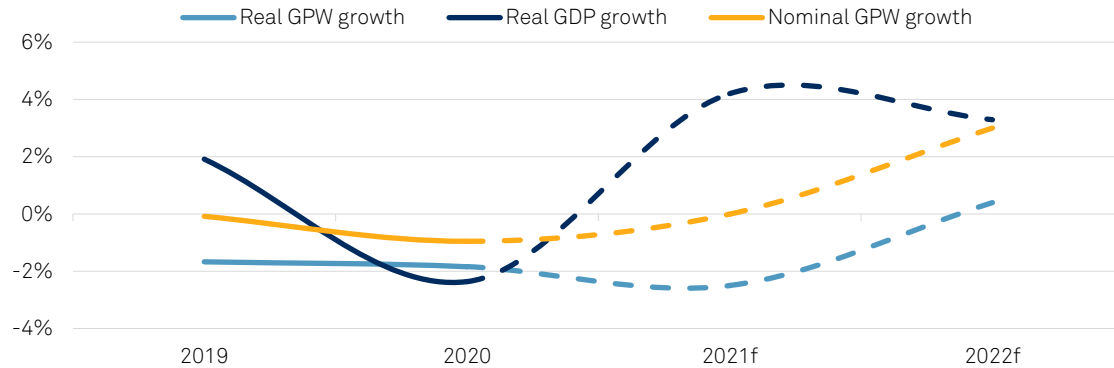
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# APAC Life

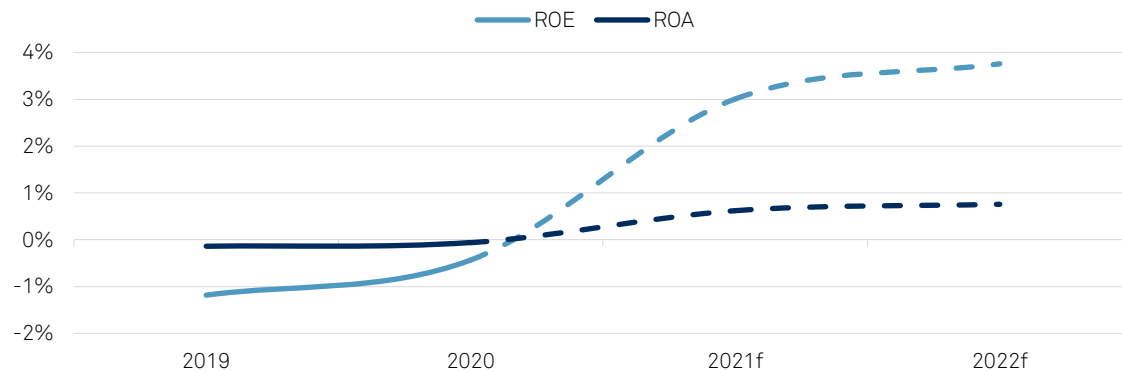


# Australia Life | Stable Industry Risk Trend On **Improved Profitability Prospects**

## Solid Recovery In GPW Growth Following Pandemic And Mobility Restrictions



## Return To Profitability Thanks To Pricing And Product Reforms



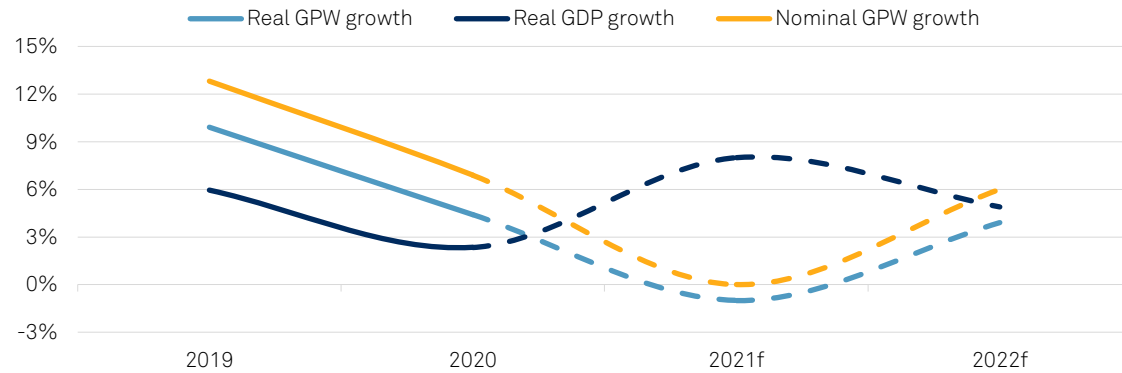
- Industry returned to profitability in year ending June 30, 2021 with **pricing and underwriting reforms**, after poor performance in prior years largely from disability income claims.
- **We forecast rate increases to continue**, with heightened health awareness supporting premium growth through to 2022. Increased digital activity and product redesign will help dissipate distribution challenges.
- **Lower investment returns** and possible adverse prior-year claims developments may cap ROA improvements.
- **Solid capital adequacy** maintained following the last of the life insurance divestments from major banks to more stable, foreign-owned, specialist life insurance groups.

GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

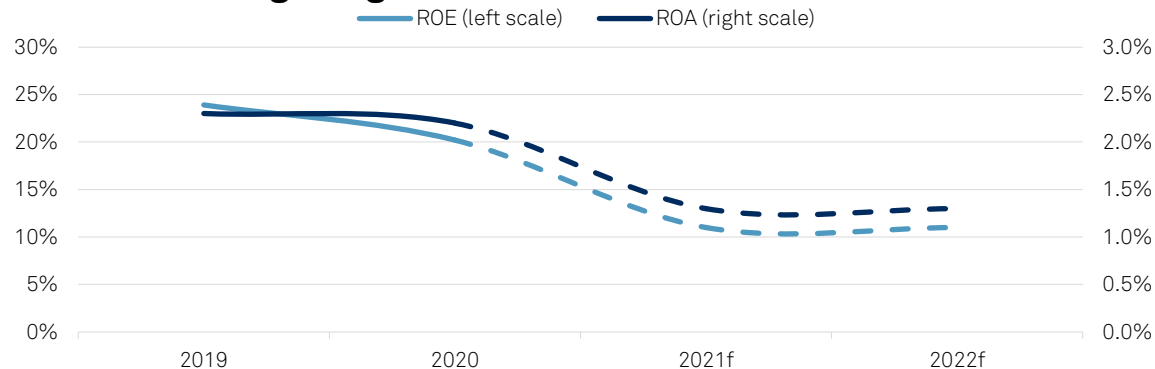


# China Life | Product And Distribution Channel **Reforms To Support Long-Term Growth**

## Insurers To Achieve Sustainable Growth Through Protection-Type Policies



## The Sector Faces Diluted Earnings From Reinvestment Pressure And Contracting Margins

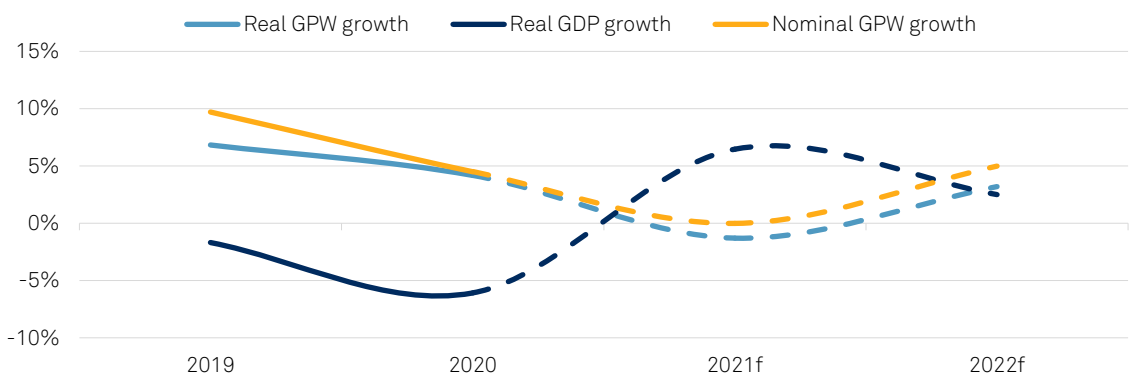


- The shift toward long-term protection-type policies could support more **sustainable growth**. This is despite muted growth against the backdrop of a shrinking sales force in 2021.
- Rising insurance awareness and demand for protection will **support the sector's long-term growth prospects**.
- **Reinvestment challenges** amid still-low interest rates and capital market swings **will dilute earnings**.
- Limited availability of long-duration assets imply **persisting asset-liability challenges**.

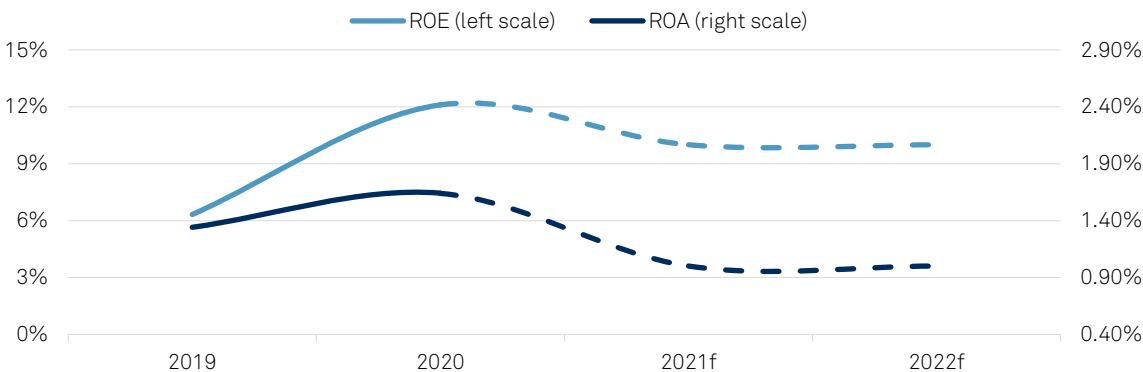
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. Actual figures for 2019-2020 represent approximately 60% market share. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Hong Kong Life | Resilient Demand And Profitable Growth Support Low Industry Risk

## Premium Growth To Rebound More Firmly In 2022



## Profitability A Key Strength, Thanks To Sound Margins And Resilient Fee Income

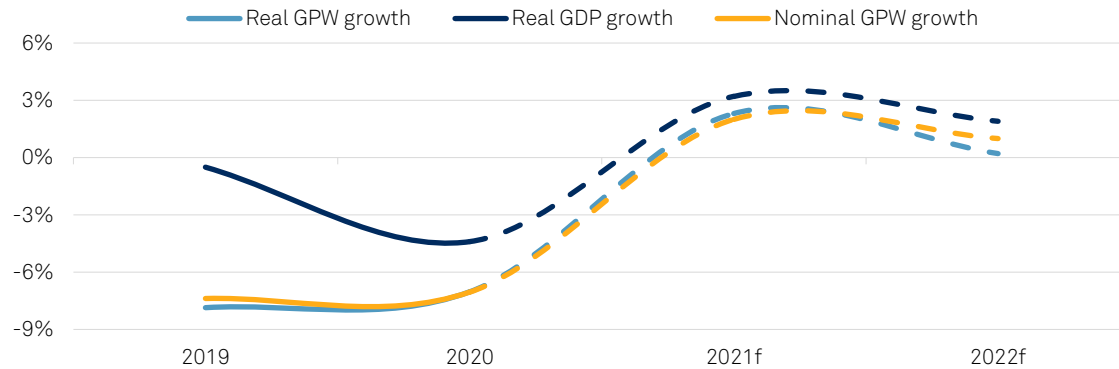


- **New business growth to gradually recover from 2021 and 2022**, supported by resumed insurance sales activity and rising protection awareness post pandemic.
- The drop in 2021 real premium growth is due to lower renewals on the back of **subdued new business volumes, particularly offshore customers, amid the pandemic in 2020.**
- We expect **ROA to remain above 1%**, though this is below the sector's historic average, considering demand in reserve provision, reinvestment challenges, and increased compliance costs.
- **Low guarantees** and the dominance of participating-type policies sold provide insurers the **flexibility to adjust unguaranteed policyholder dividends**, supporting insurance margin.

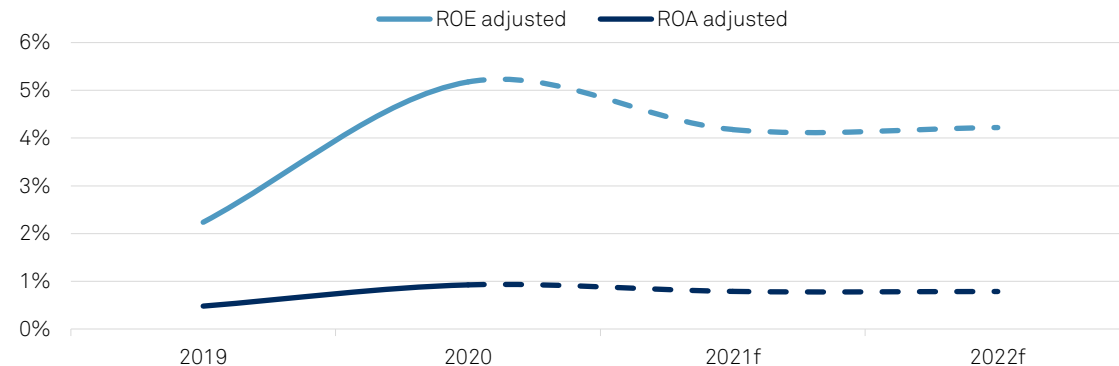
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Japan Life | Mature Market Supported By **Stable Core Insurance Profits**

## Premiums To Grow In 2021 As The Impact Of COVID-19 Wears Off



## ROE Affected By Financial Market Movements But Core Insurance Profit Remains Stable

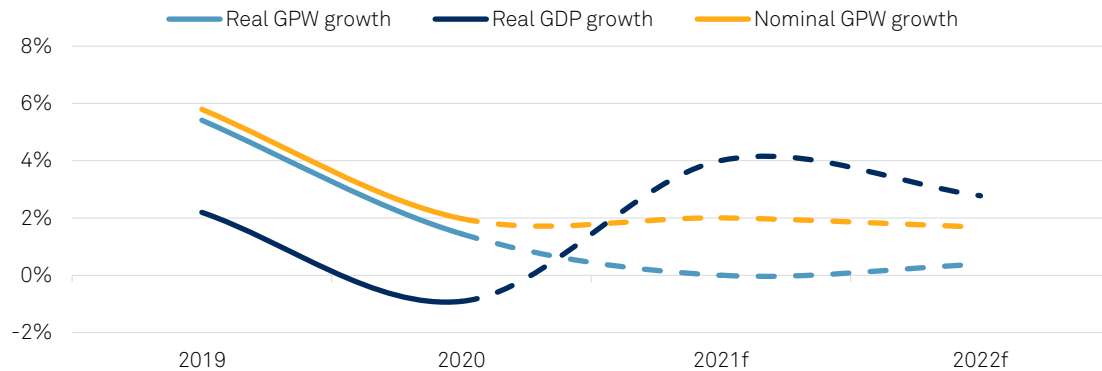


- We expect **profitability to be stable over 2021-2022**, supported by **stable** mortality margins as well as continued demand for profitable products such as medical, disability, and long-term care insurance.
- Moderate recovery in premium is likely in 2021, since the impact of voluntary restraint on sales activities under the 2020 state of emergency has worn off. Growth will **continue in 2022 and beyond**, supported by the ageing population's demand for life insurance products to hedge longevity and morbidity risks.
- **Asset-liability mismatches due to high legacy contractual guarantees**, though declining from previous highs, continue to **add to product risk**. Equity risk is also an inevitable financial risk under the continuing low interest rate environment.
- Ahead of regulatory changes in 2025, **insurers are speeding up their shift to economic value-based management** by reducing interest rate risk and strengthening capital.

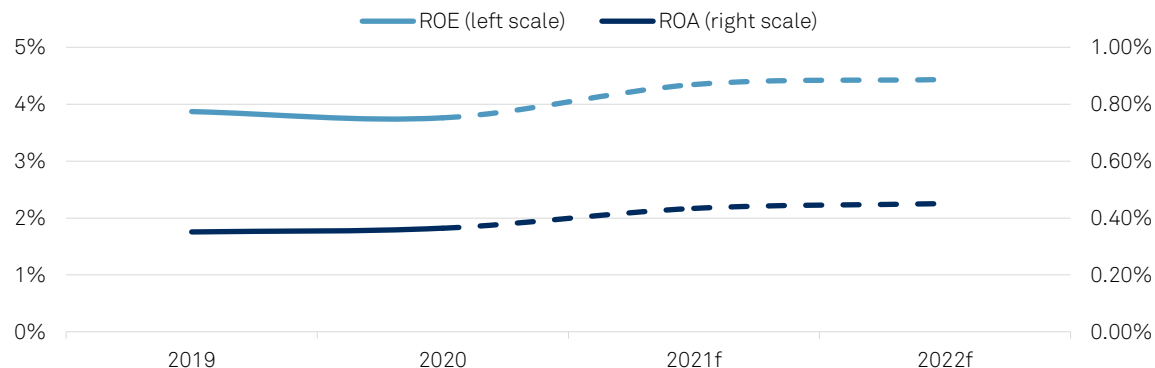
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. Adjustment to return metrics reflects our views on equity-like reserves. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Korea Life | Legacy High-Yield Guarantee Policies **Constrain The Sector's Profitability**

## Premium Growth Will Lag The Economy Given The Sector's Mature Stage



## Though Stable, Profitability Metrics Are Weaker Than Global Peers

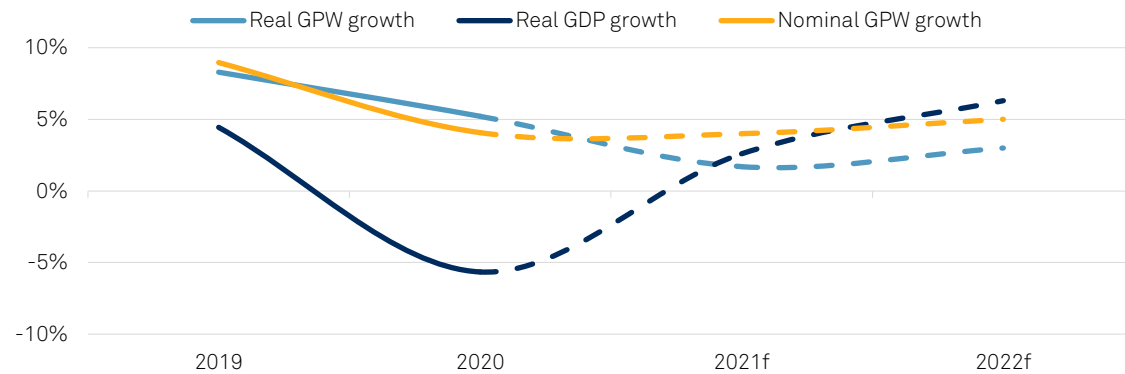


- The gradual economic recovery in Korea and **rising domestic interest rates** should **alleviate some pressures** on insurers' technical reserves and investment yields.
- Legacy high-yield **guarantee policies will continue to drag on profitability**. We estimate insurance policies with more than 5% fixed-rate guarantee represent approximately 25% of life insurers' reserves as of June 30, 2021.
- The insurers will likely continue **focusing on protection policies** with low interest rate guarantees, which generate better value in the medium-to-long term. We project modest growth in premiums over the next two years.
- The evolving regulatory framework, along with **the adoption of IFRS 17 and the new regulatory capital framework from 2023**, will enhance comparability with international insurers.

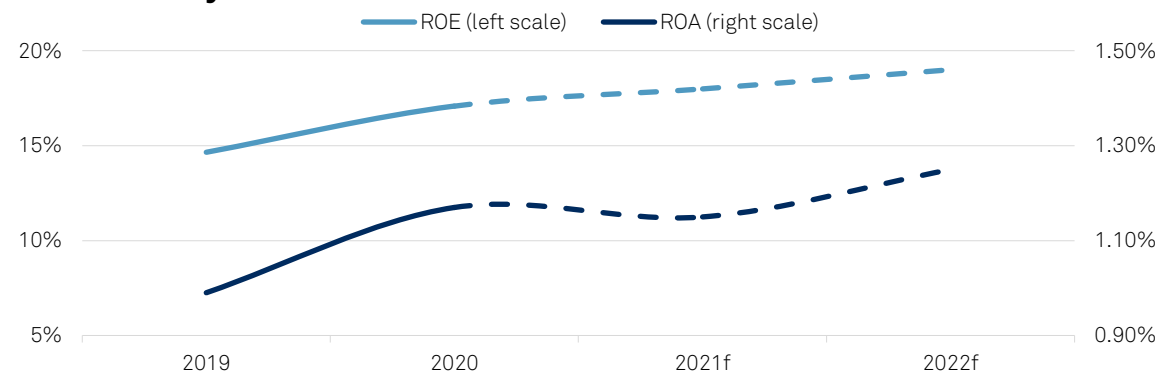
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Malaysia Life | Moderate Prospective Premium Growth With **Focus** On Maintaining Profit Margins

## Moderate Premium Growth Owing To Slower Economic Recovery



## Efficient Operations And Low Guaranteed Products To Support Profitability

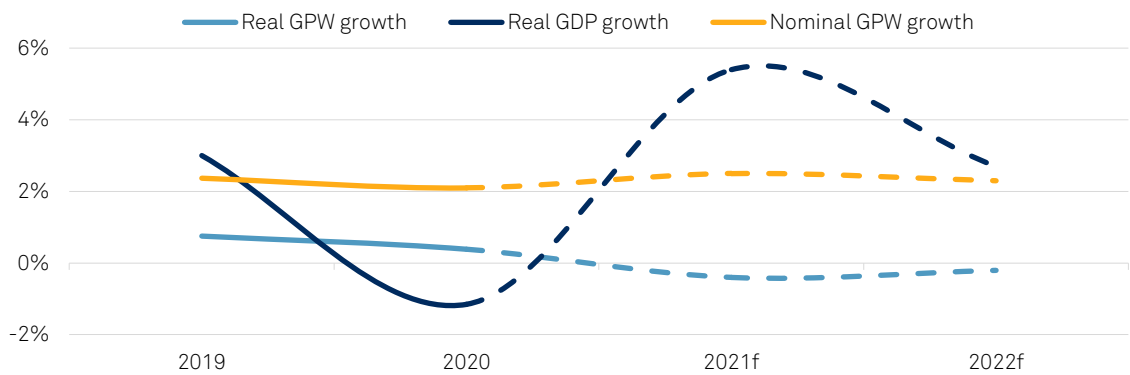


- **The sector's prospective profitability** will continue benefitting from **efficient operations** of dominant players **and shift** toward **products with low guaranteed features**.
- **Slower premium growth compared to pre-COVID-19 levels**, reflecting **negative sentiment in consumer spending** amid a **slow economic recovery**, which has been undermined by a worsening domestic COVID-19 situation in 2021.
- The government's announcement allowing the withdrawal of **Employees' Provident Fund** to purchase life and critical illness cover and the introduction of **affordable insurance products to low-income groups** should help carry the life insurance sector through the current challenging economic environment.

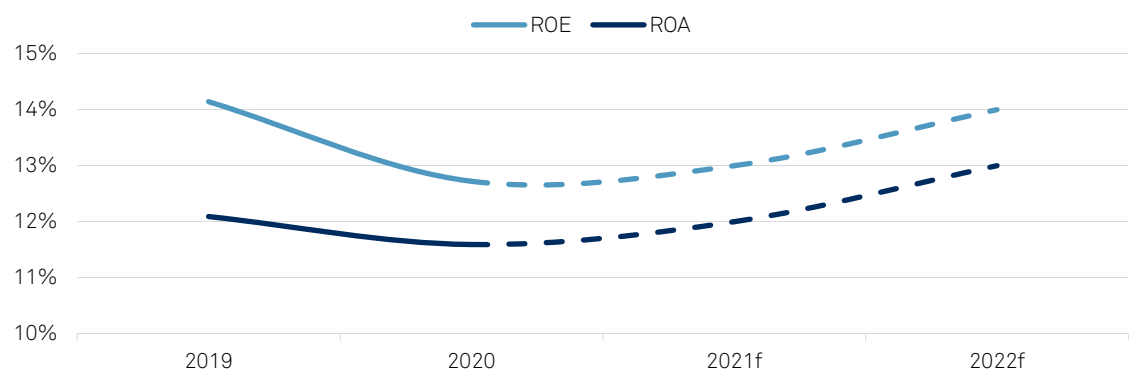
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# New Zealand Life | Strong Returns And Relatively Low Exposure To Longevity Risks Than Other Life Markets

Real GPW Growth To Remain Subdued Due To Soft Economic Conditions



Strong And Stable Profitability Metrics Likely To Persist

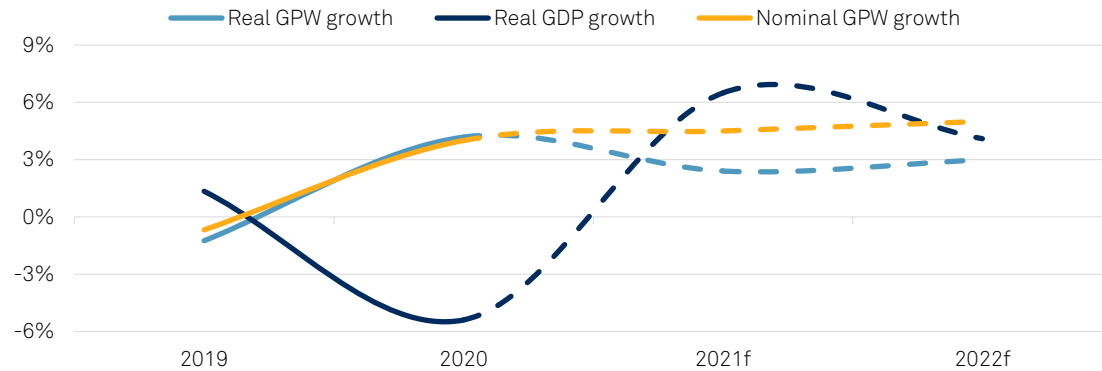


- Limited impact of COVID-19 on the life sector's profitability owing to **low mortality rates in New Zealand**.
- Products predominantly comprise individual risk protection with **low-risk features**. Hence, the sector has **low asset-liability mismatch and longevity risks**.
- The sector has experienced **consolidation and ownership changes** in recent years, most recently with Westpac Life-NZ-Ltd.'s announced sale to Fidelity Life.

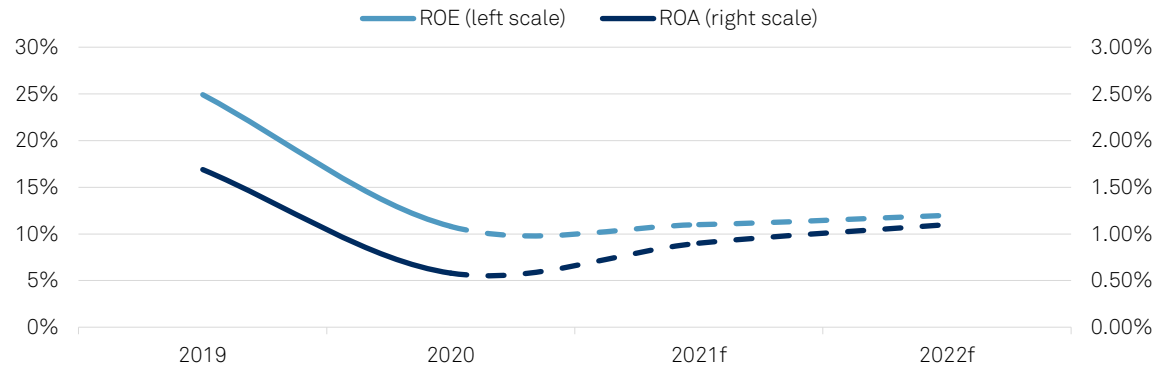
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Singapore Life | **Strong Profitability** With Moderate Growth Prospects

## Premium Growth Driven By Protection And Investment-Linked Products Amid Sustained Low Interest Rates



## Profitability Will Remain Strong, Albeit Weaker Than Pre-Pandemic Levels



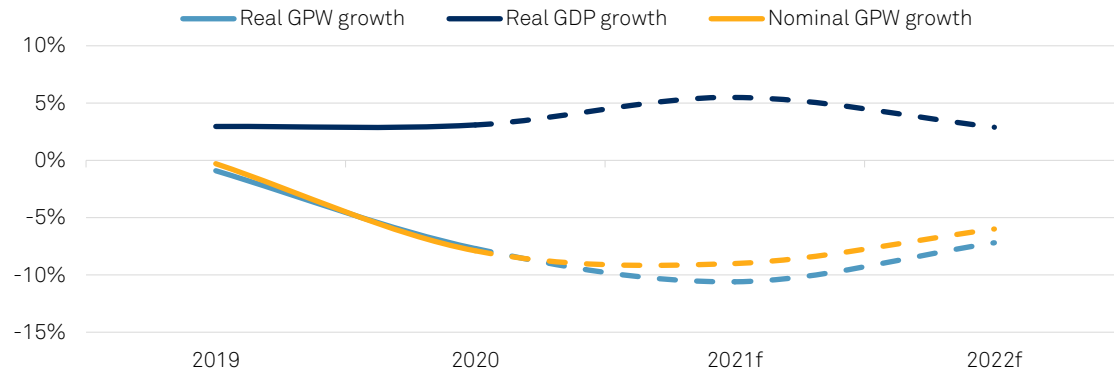
- Strong profitability underpinned by **underwriting prudence with low guarantees, moderate equity exposures, and efficient operations** of dominant players.
- Persistently low interest rates and potential volatility in equity markets could **constrain the industry's profitability**.
- Moderate growth prospects with healthy demand for **protection and investment-linked products** amid the sustained low interest rate environment, and improved awareness fueling push for **health insurance products**.
- Substantial portion of profit-sharing products provides **flexibility in capital management**.
- Manageable pandemic-related claims given relatively **low mortality rates** within Singapore, as well as the government covering COVID-19-related medical costs.

GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

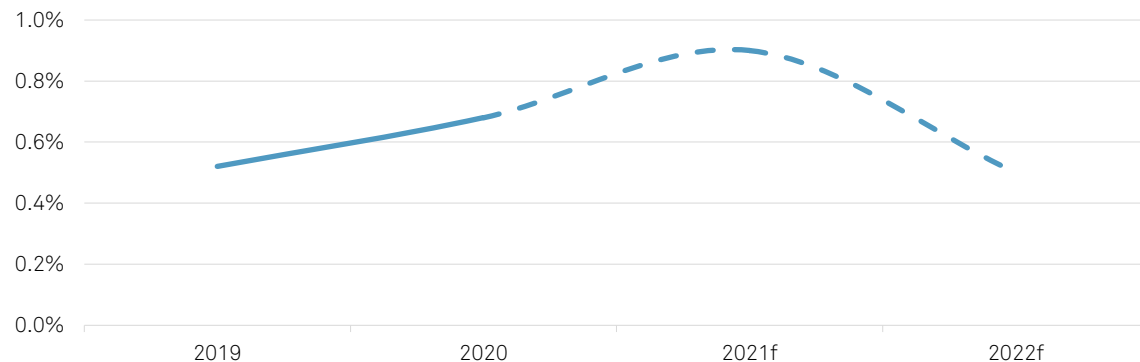


# Taiwan Life | Stable Market Dynamics With Some **Foreign Exchange Risk Exposure**

## Demand For Investment-Linked Products To Aid GPW Growth Recovery From 2022



## Strong Capital Gains To Support ROA In 2021, With 2022 Forecast Normalizing To Historic Levels

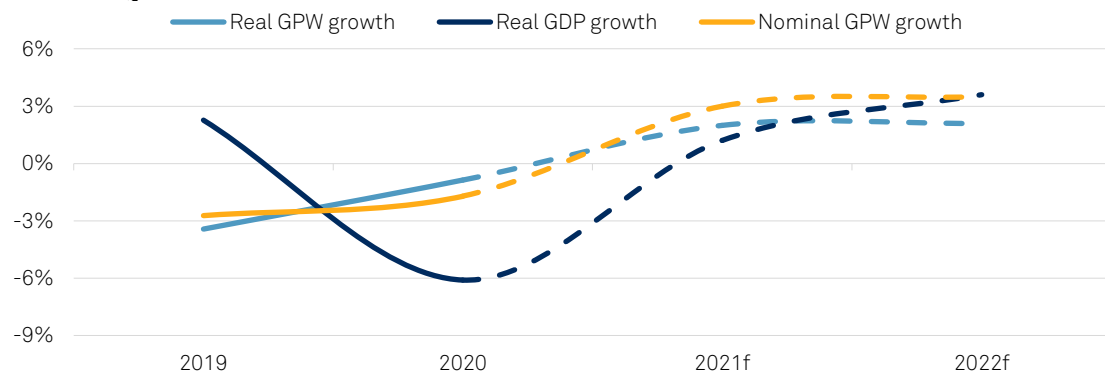


- The **regulator's efforts** to guide the sector's products to profitable long-term protection policies resulted in a **drop in 2020 and 2021 premiums**. In addition, renewal premiums from previously sold, hot sale products being paid in full further hampers premium growth through to 2022.
- The **pandemic had less of an impact on growth** because of the government's successful containment measures.
- Due to the longstanding issue of negative spread, which occurs when recurring investment yields fall below contractual guaranteed rates, we expect **profitability to remain weaker than peers**. However, constant capital gains from investments tend to mitigate this.
- Taiwan's life insurers face **asset and liability management mismatches and foreign exchange risks**, and insurers' investments are susceptible to market volatility.
- The sector's investments in **high-risk assets such as equities** is higher than for other life insurance sectors in the region.

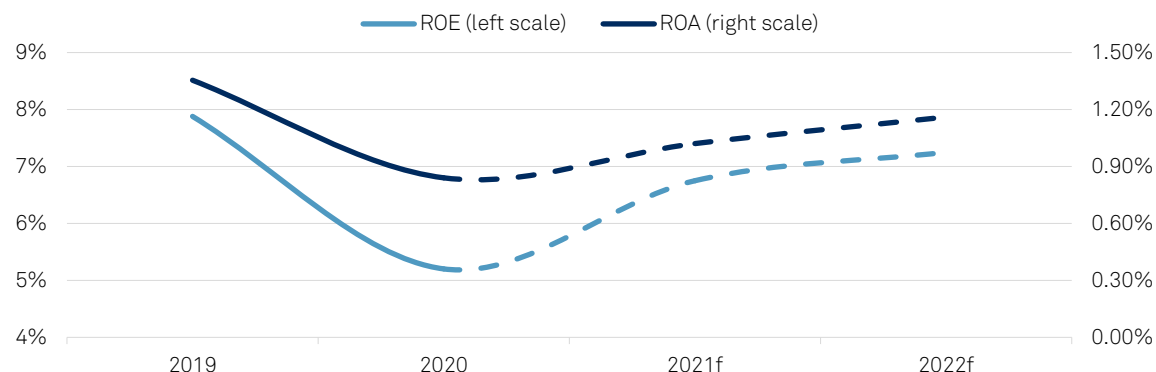
GPW—gross premiums written. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Thailand Life | Core Insurance Profits Maintained Amid ALM Risks

## Moderate Premium Growth Prospects With The Recovering Economy



## Profitability To Gradually Recover Over 2021-2022



- The industry's profitability continues to benefit from **good underwriting margins** and fee income. However, **asset-liability mismatch (ALM) risk remains** due to low interest rates.
- Insurers continue shifting to offer products with lower guarantees. In addition, regulatory measures to widen investment avenues, such as **increasing foreign investment limits** and the **relaxation of foreign currency hedging to address the low interest rate challenges**, should alleviate some ALM risk and gradually restore the sector's profitability.
- Weakened economic conditions to slow down life business **growth prospects in 2021**.
- The anticipated rebound in economic activities, supported by the government stimulus package and a commitment to develop the sector will **help raise insurance awareness and accessibility**, thereby **fuelling the demand for insurance products in the longer term**.

GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# North America

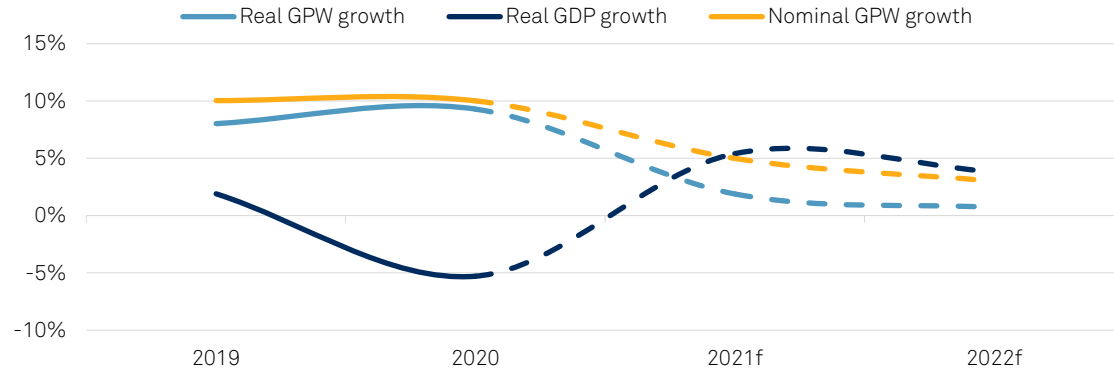
## P/C

Very low risk  
Low risk  
Intermediate risk  
Moderately high risk  
High risk  
Very high risk

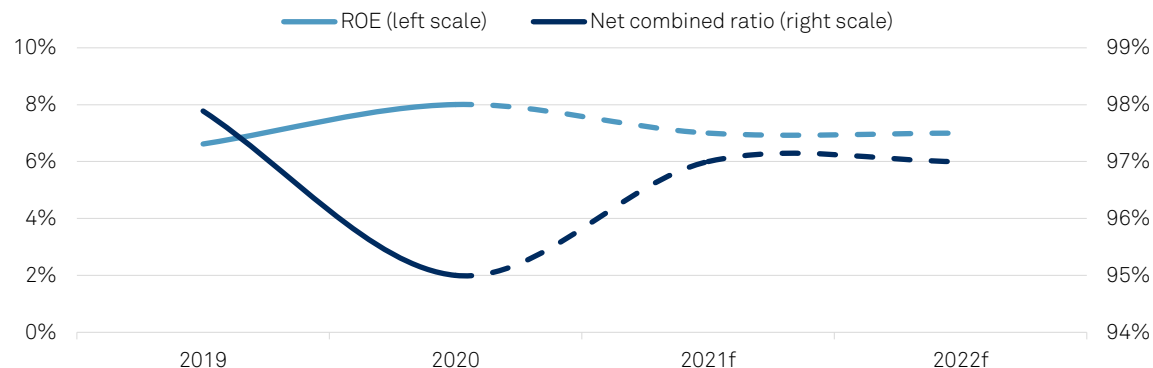


# Canada P/C | **Favorable Pricing Environment** Supports Premium Growth And Profitability

## Strong Pricing Drives Real Top Line Growth, Despite Pandemic



## We Expect Profitability To Remain Stable Through To 2022

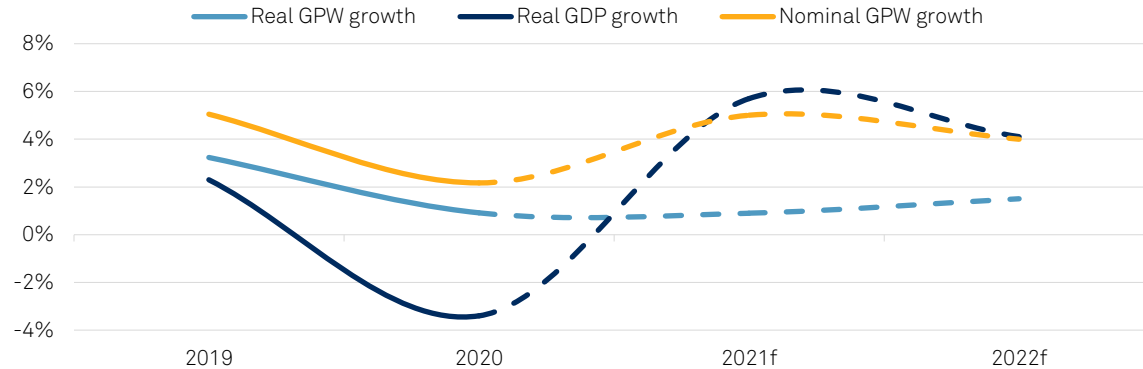


- Following rate improvements in 2020, **we anticipate a moderation in GPW growth** in 2022 to become more in line with GDP growth.
- We believe a continuation of a **favorable rate environment**, greater focus on **underwriting profits**, and benefits from **industry consolidation** will allow for stable combined ratios, assuming a normal level of catastrophe losses.
- **Lower interest rates**, however, will continue to challenge the improvements in underwriting.
- **Exposure to winter storms**, earthquakes, hurricanes, and convective storms **could hamper returns**.

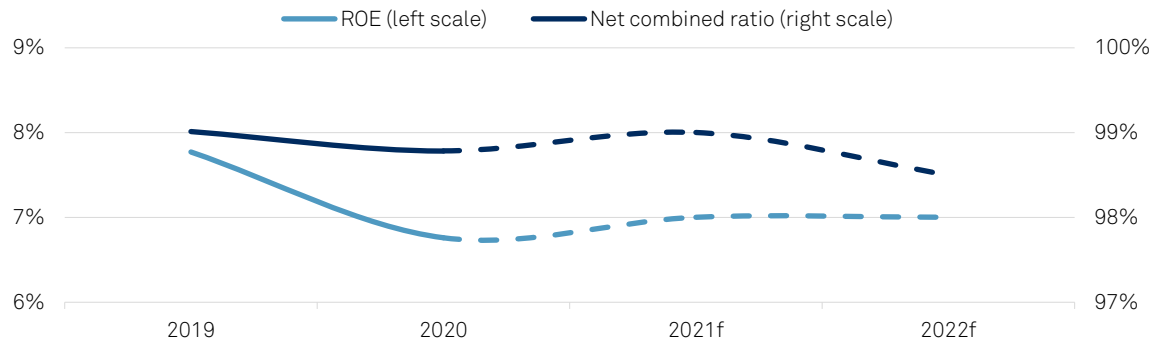
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# U.S. P/C | Satisfactory Prospective Profitability, Offset By Potential Litigation Risk And Exposure To Natural Catastrophes

## Favorable Pricing Momentum To Support GPW Growth



## Underwriting Performance To Remain Near Breakeven In The Absence Of Major Catastrophe Events

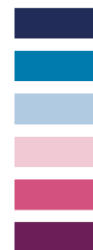


- **Premium growth** is supported by continued **rate increases in most commercial lines**, partly offsetting lower growth in rates in personal auto.
- The continued **low interest rate environment** challenges investment returns.
- We view the U.S. **legal system as generally litigious**, exposing U.S. P/C insurers to **unpredictable claims settlements** and related reserve volatility. Business interruption cases relating to COVID-19 are one example of this.
- The U.S. P/C sector is **exposed to winter storms, earthquakes, hurricanes**, wildfires, and convective storms, which hinder underwriting performance.

P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

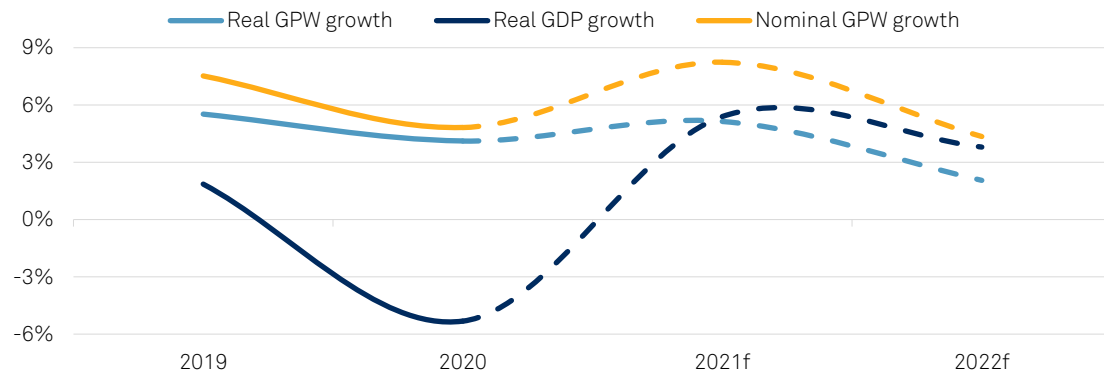
# North America Life

Very low risk  
Low risk  
Intermediate risk  
Moderately high risk  
High risk  
Very high risk

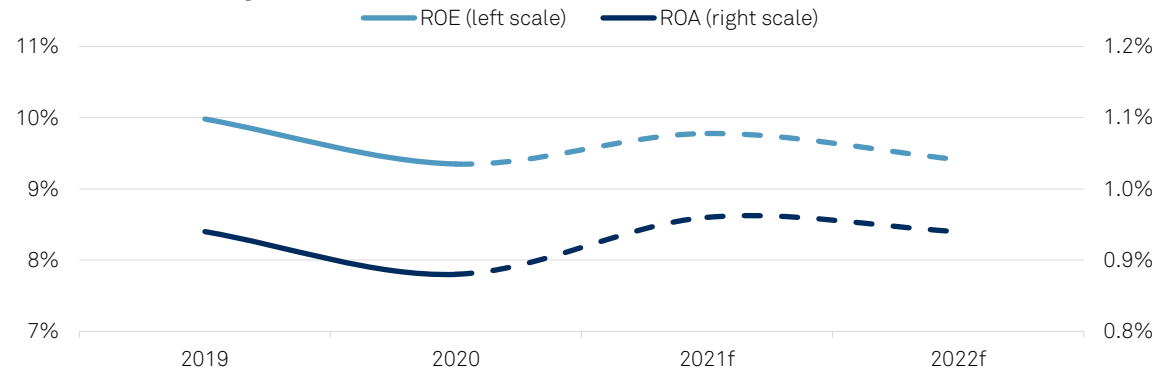


# Canada Life | Oligopolistic And Structured Nature Of The Market Makes It **One Of The Least Risky Globally**

## Premium Growth Is Expected To Recover In Line With GDP



## Depressed Yields And Higher Credit Risk To Leave ROE Subdued, But This Is Expected To Recover

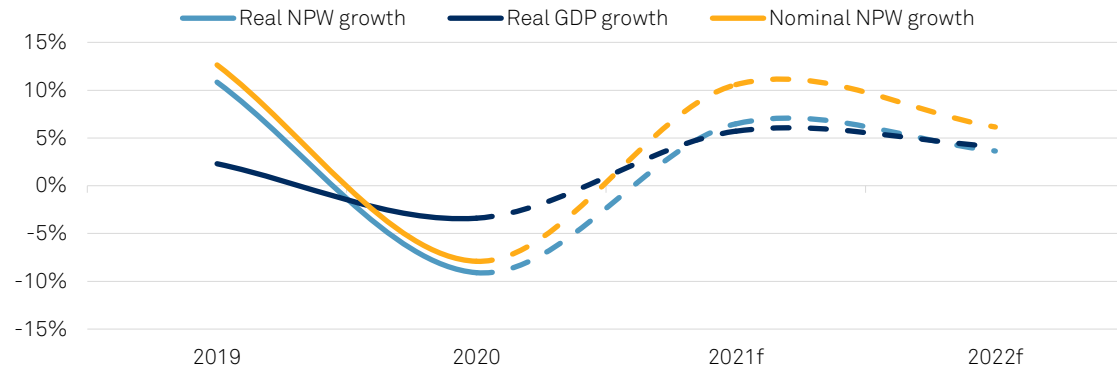


- Canada's life insurance sector benefits from **strong regulatory oversight, high levels of wealth**, and economic diversification.
- Net premiums are likely to recover in line with expected GDP growth over 2022. However, the **mature Canadian life insurance industry** limits the expected growth prospects.
- We expect operating performance improvements to continue in 2022, but the **prolonged low interest rate environment** will continue to weigh on investment yields.
- **High asset quality and overall capital buffers**, including provisions for adverse deviations, have helped offset macroeconomic headwinds and challenging business environment from the pandemic and crisis in the energy sector.

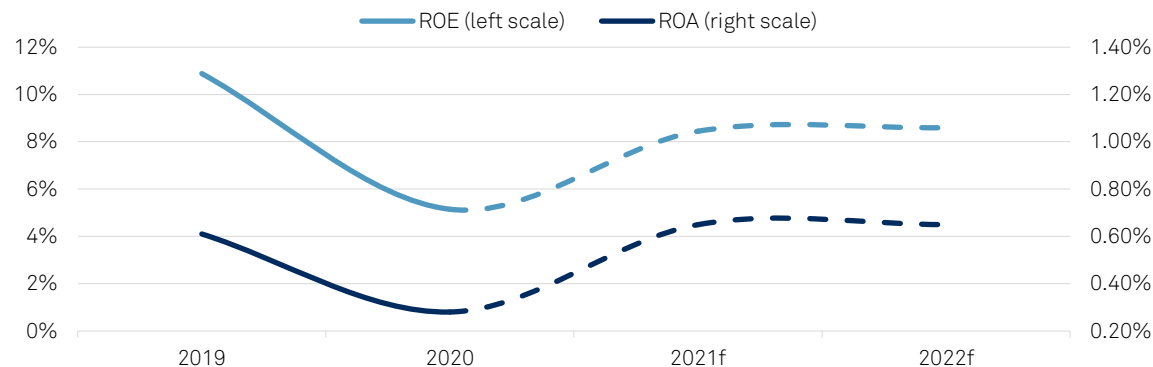
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# U.S. Life | Despite Its Maturity, The Sector Shows **Decent Growth And Good Overall Profitability Prospects**

## We Expect Real NPW Growth To Correlate With GDP



## Profitability Should Improve Following A Dip In 2020 Returns



- We expect that life insurers will continue to deal with somewhat **elevated defaults and write-downs** in their investment portfolios, **distribution challenges**, and slightly **elevated mortality claims** as the pandemic subsides.
- **Retirement-savings products** have fueled insurers' growth in recent years as demographics shift toward an older and retired population. We expect this **momentum to continue in the longer term**.
- Prolonged **low interest rates** will continue to put pressure on spread compression and **weigh on operating performance**.
- **Asset or investment risk** remains the biggest risk to U.S. life insurers' balance sheets.
- **Strong history of maintaining asset-liability management** mismatches within one year, with diminishing exposure to market-sensitive products, thanks to insurers' speed in redesigning products to adapt to the near-zero rate environment.

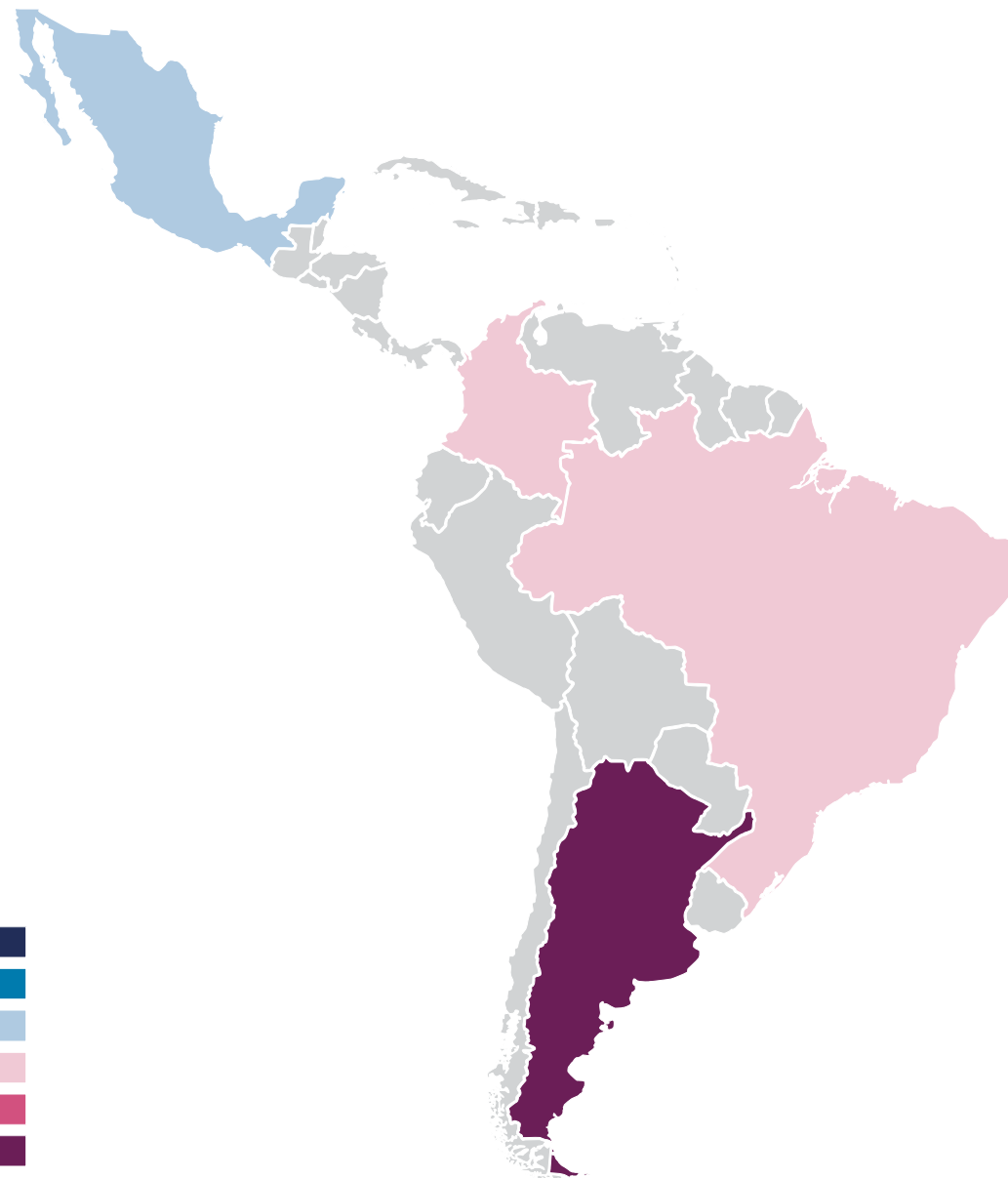
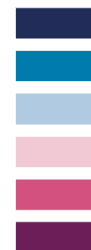
NPW—net premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.



# Latin America

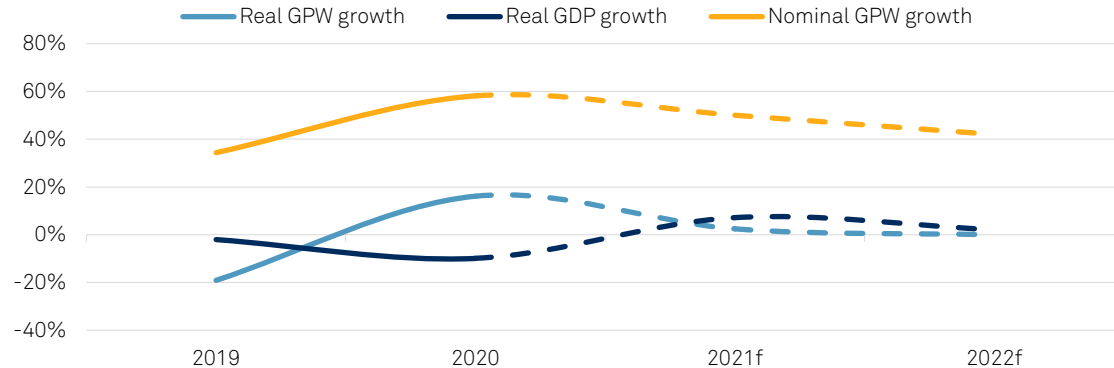
## P/C

Very low risk  
Low risk  
Intermediate risk  
Moderately high risk  
High risk  
Very high risk

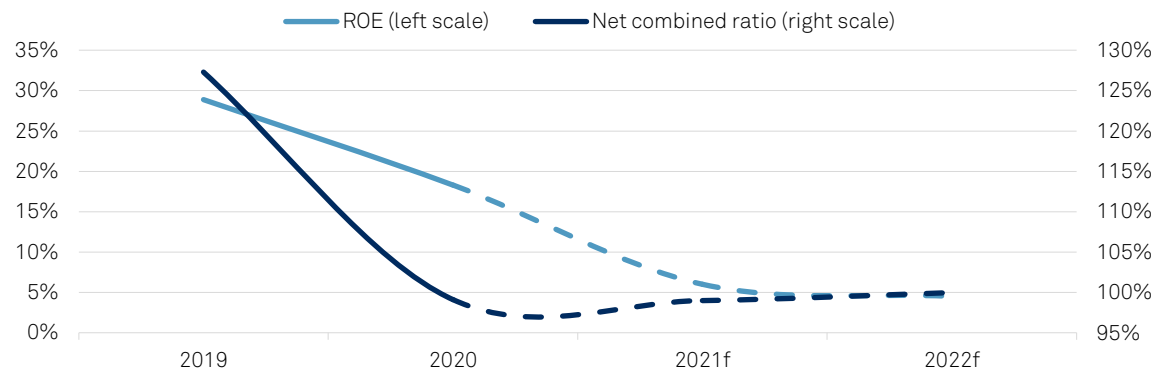


# Argentina P/C | High Inflation And Product Risk Spur Sector Profitability

## Tough Macroeconomic Environment Results In Slow Real GPW growth



## With Inflation Expected To Remain Above 40%, Low Real Returns

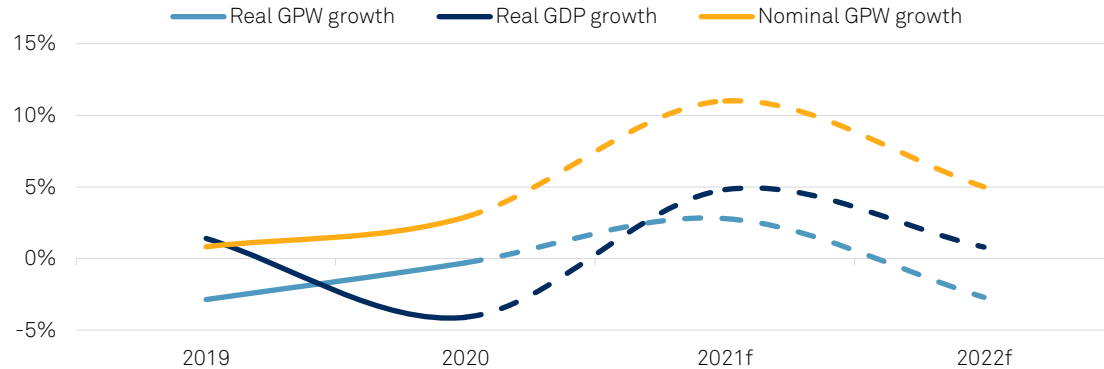


- The improvement in technical results is mainly due to the accounting effect of **adjusting for inflation**. In addition, lockdown measures in 2020 helped keep **claims and administrative costs below average**.
- We expect claims experience to revert to pre-pandemic levels in 2021-2022.
- We estimate **low real premiums growth**, with insurers focusing on retaining customers and collecting premiums, given Argentina's very challenging economic conditions.
- Considerable **product risk** results from high inflation, a volatile exchange-rate policy, and foreign-exchange controls. These factors cause **uncertainties in both pricing and reserving**.
- **Government intervention** has often resulted in changes in regulations, making it difficult for the insurance sector to adjust to new requirements.

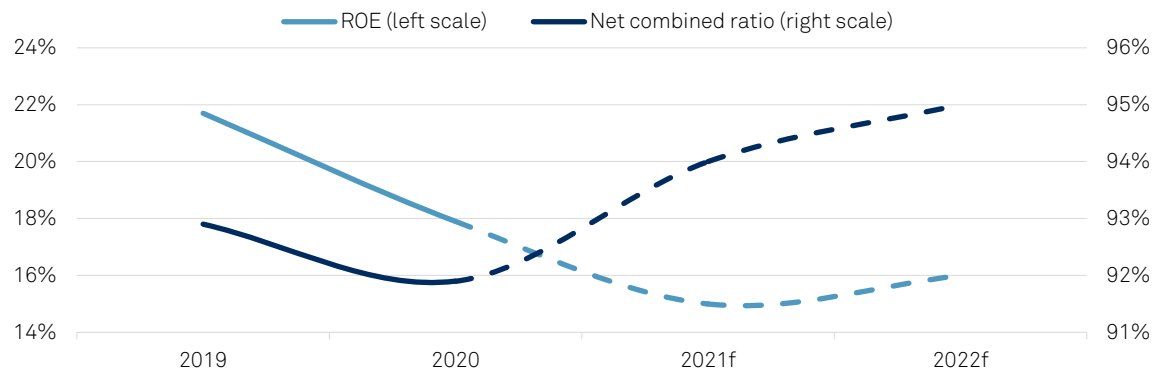
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. Since June 2020 (fiscal year-end), insurers began presenting their financial statements adjusted by inflation, distorting comparable metrics with previous years as previous financial statements were in nominal terms. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Brazil P/C | Satisfactory Profitability Despite **Difficult Economic Conditions**

## Premium Growth Recovery To Slow Down Next Year Due To Challenging Economic Environment



## Returns Expected To Revert To Pre-Pandemic Levels Following An Improvement In 2020

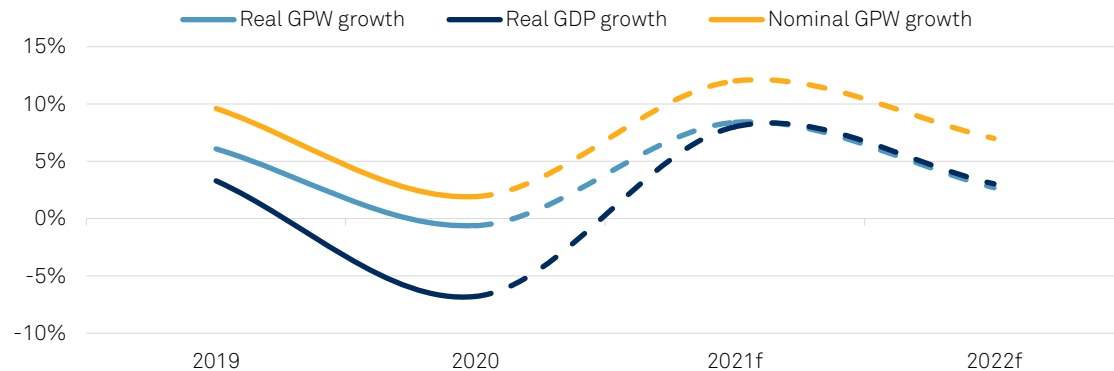


- We expect **ROE to be somewhat volatile** in the next two years due to the **uncertain and challenging economic conditions**, although it should remain in the double-digits.
- **Inflation rates** at around 8% over 2021-2022 to somewhat **depress real rates of return**.
- With motor insurance representing roughly 40% of the P/C sector, **lockdown measures resulted in a net positive impact** on underwriting performance.
- **Weak premium growth** resulting from difficult macroeconomic environment is somewhat **offset by growth in surety and agriculture insurance**.
- Increasing interest rates should enhance profitability despite our expectation of still weak economic conditions for next year.

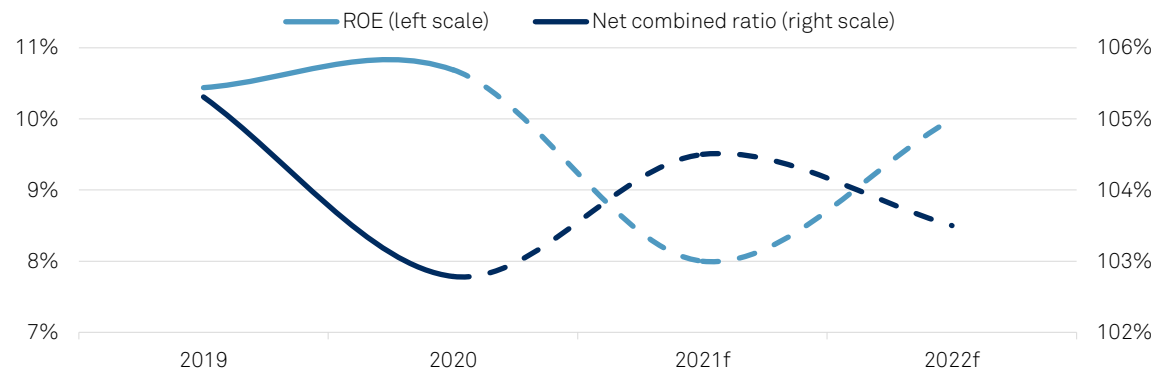
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Colombia P/C | **Weak Technical Performance** Offset By Adequate Market Growth Prospects

## GPW Growth To Recover After 2020 Dip



## Investment Returns To Offset Technical Losses, Resulting In Decent ROE

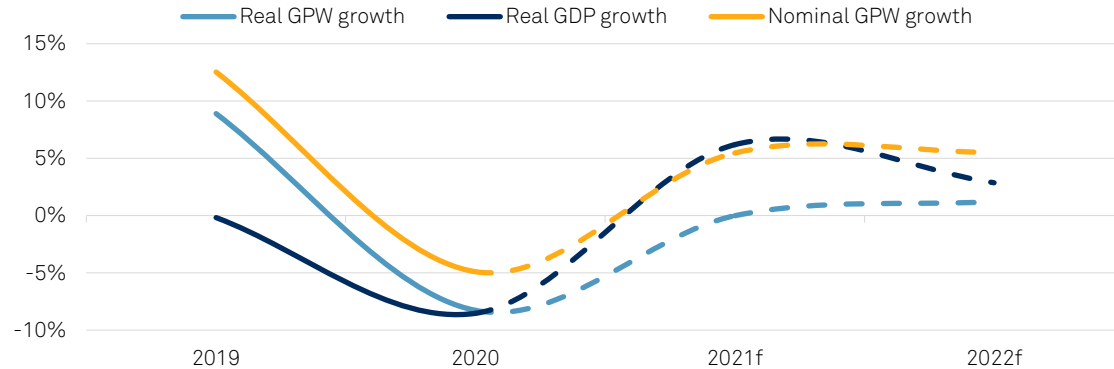


- The sector is characterized by **consistent underwriting losses** and heavy reliance on **investment gains to achieve earnings**.
- **Violent social unrest** during the first semester this year following the government's tax reform proposals, which resulted in physical damage and theft in several cities, **along with the removal of lockdowns, are pressuring loss ratios**.
- **Growth of auto insurance**, which makes up around 40% of the industry's premiums, **will recover rapidly** thanks to resumption in new car sales.
- **Natural catastrophe risk in Colombia is not as high as in other Latin American countries**, and the use of reinsurance mitigates volatility from catastrophic events.

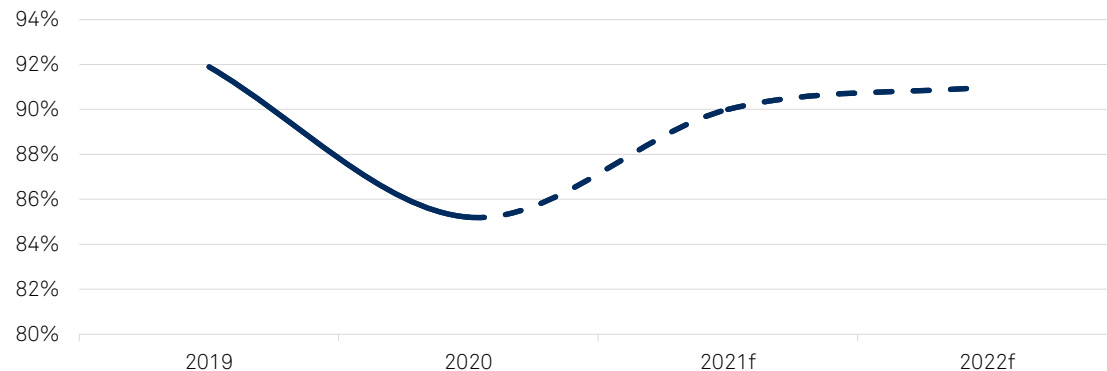
P/C—property/casualty. GPW—gross premiums written. ROE—return on equity. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Mexico P/C | Normalization In Profitability Due To Recovery In Mobility

## GPW Growth To Recover In 2021-2022, Following A Sharp Dip Last Year



## Net Combined Ratios Expected To Revert To Pre-Pandemic Levels In 2021-2022

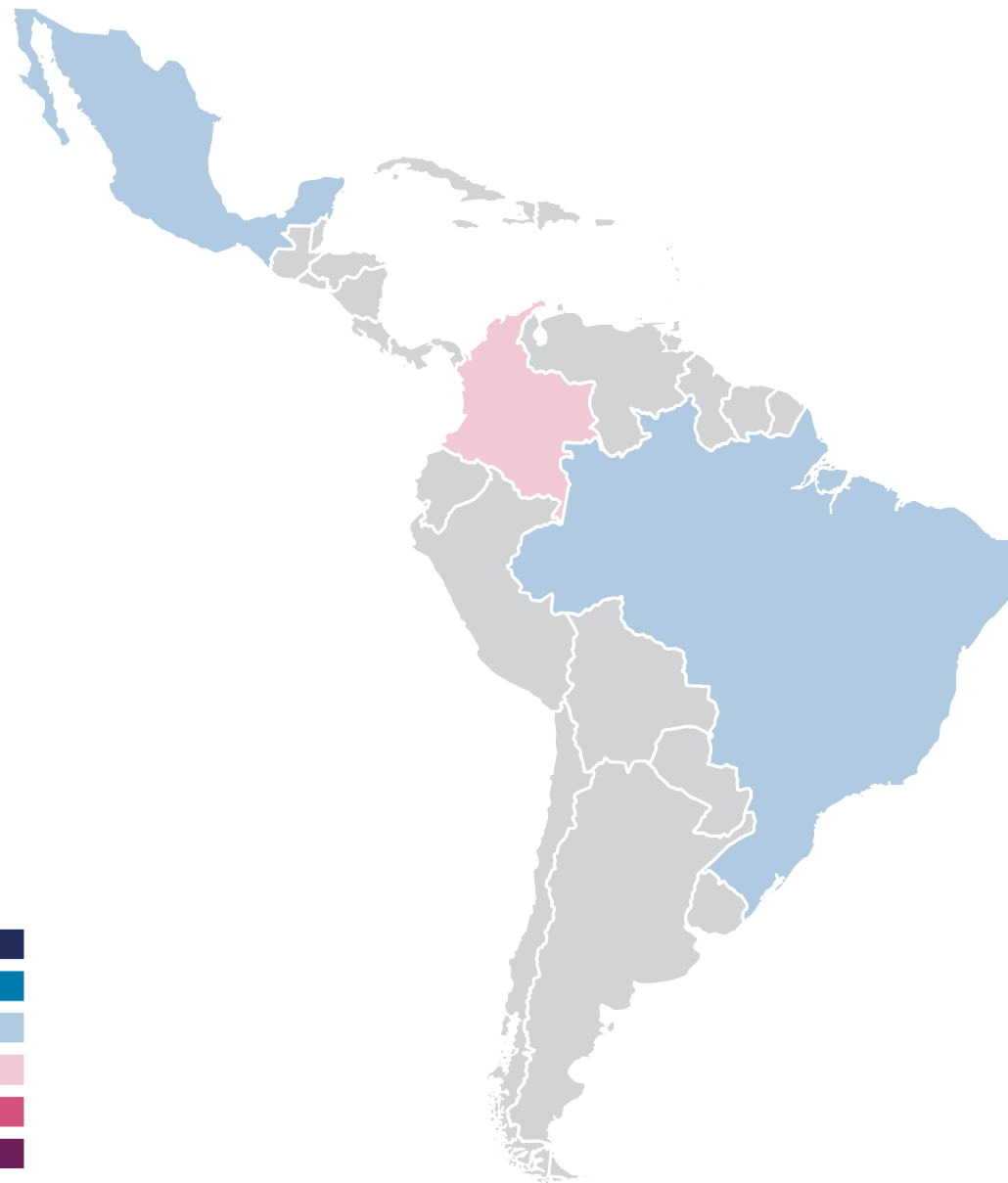
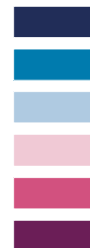


- **We expect accident and health** performance to benefit from increasing awareness of the importance of insurance coverage, highlighted by the **pandemic**.
- Although **Mexico is exposed to natural disasters**, we consider the industry is **mitigating this risk** through its increasing sophistication and the **use of non-proportional reinsurance**.
- The **lack of product innovation** in the auto and health sectors result in **greater challenges to generate higher profit margins**, given their competitive dynamics and cost structures.

P/C—property/casualty. GPW—gross premiums written. f—forecast. As Mexican insurers are multiline entities writing life and non-life business, there is no available segment information to estimate return on equity for P/C insurers. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

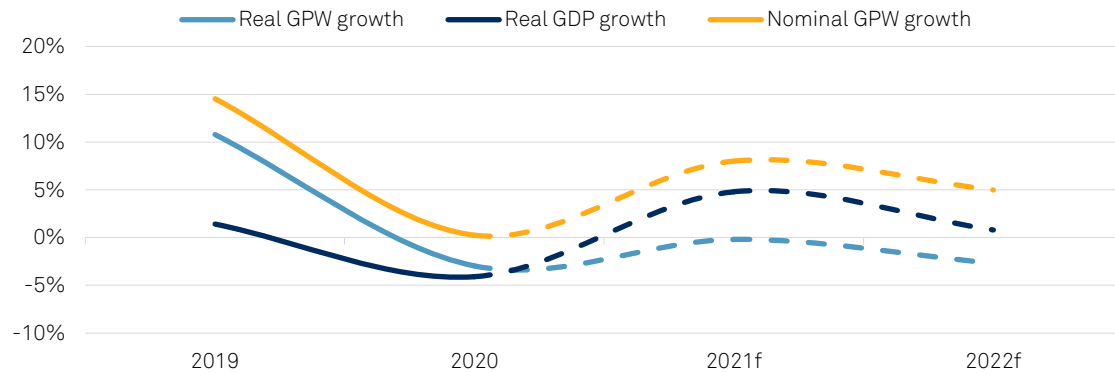
# Latin America Life

Very low risk  
Low risk  
Intermediate risk  
Moderately high risk  
High risk  
Very high risk

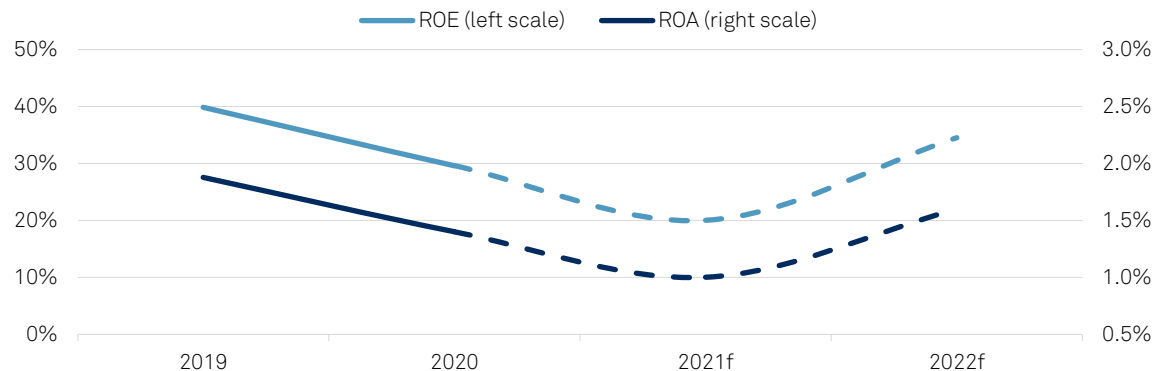


# Brazil Life | Minimal Product Risk And High Barriers To Entry Will Support Low Industry Risk

## Slow Recovery Of The Brazilian Economy Could Limit Growth



## Despite A Decline In Returns, Profitability Remains Strong

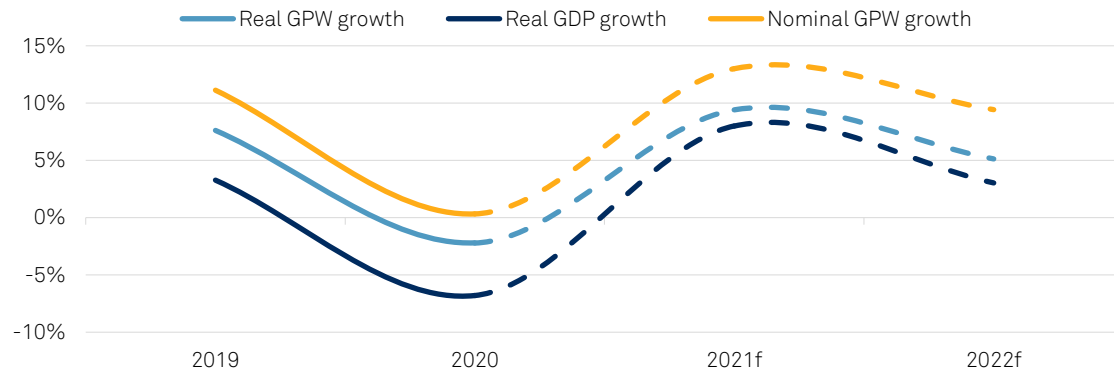


- **COVID-19 has strained the sector's profitability** in 2021, but we expect that to recover next year as interest rates increase and COVID-19-related mortality falls in Brazil.
- We expect **ROE to remain considerably above interest rates** through to 2022, despite an expected dip resulting from the pandemic.
- The main life products in Brazil have **unit-linked characteristics**, minimizing product risk for insurers.
- The five largest companies share 75% of the market, all of which are subsidiaries of the country's largest banks. This results in **efficient distribution channels**.

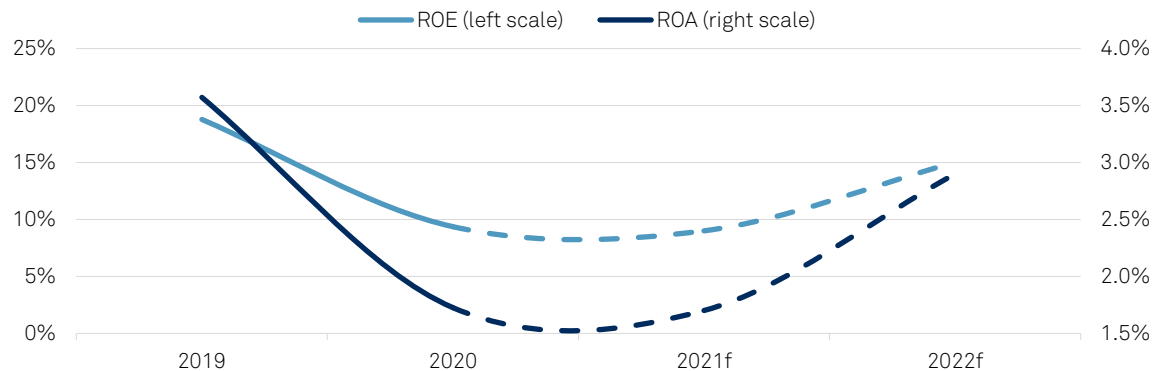
GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Colombia Life & Health | Recovery In Growth And Profits Through To 2022

## Premium Growth To Rebound In Line With GDP Following Lockdown-Induced Contraction



## Profitability Will Recover Progressively To Pre-Pandemic Levels, But Not Until 2022



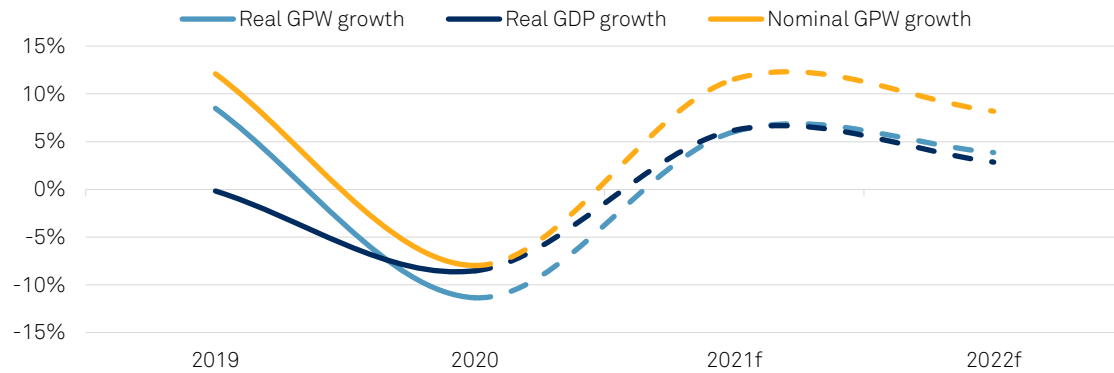
- **Social protests** following the government's tax reform proposals dampen economic growth, employment, and overall business conditions, leading us to believe that the sector's profitability will not fully return to pre-COVID-19 levels until 2022.
- Despite a few new large issuances of long-term debt in recent years, there is still a **lack of investment options to cover long-tail technical liabilities**, resulting in product risk.
- **Evolving supervision and regulations still lag** international standards, although there are initiatives to improve this over the next few years.

GPW—gross premiums written. ROE—return on equity. ROA—return on assets. f—forecast. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.



# Mexico Life | **Pressure On Profitability** In A Sector Seeking To Realize Its Full Growth Potential

## Strong Correlation Between Real GPW And GDP Growth



- Mexico's **economic rebound will be one of the slowest in the region**, given weak investor sentiment, low private investment, and very limited use of financial services.
- The life sector's **profitability** is still under pressure, reflecting the impact of **COVID-19**. We expect profitability to improve in 2022 based on the **vaccination progress** and increasing **investment income**.
- **Insurance subsidiaries of banking groups drive the sector's profitability**, thanks to their low expense ratios and access to banks' distribution network.
- Typical life products **transfer market risk to the policyholder** through unit-linked policies, minimizing product risk for insurers.

GPW—gross premiums written. f—forecast. As Mexican insurers are multiline entities writing life and non-life business, there is no available segment information to estimate return on equity and return on assets for life insurers. For inflation, we used S&P Global Ratings' assumptions for consumer price index growth. Source: S&P Global Ratings.

# Related Research

- [Insurance Industry And Country Risk Assessment Update: December 2021](#), Dec. 6, 2021
- [Global Credit Outlook 2022: Aftershocks, Future Shocks, And Transitions](#), Dec. 1, 2021
- [Global Reinsurance Highlights 2021: Navigating Uncharted Waters](#), Nov. 17, 2021
- [EMEA Insurance Outlook 2022 Sector: Fighting Fit For 2022](#), Nov. 16, 2021
- [European Commission Proposes New Tools For Insurance Regulators](#), Oct. 26, 2021

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