ERM Day

Inflation and higher interest rate environment

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April 26, 2023

S&P Global Ratings

Executive Summary:
Limited Impact on European Insurers In Most Scenarios

Key Take Aways

Shape and sustainability of the inflation spike are major drivers

- The sector would only be affected by significant and long-lasting inflation
    - Short-term changes would not materially impact the financial strength of European Insurers
    - Economic conditions would be affected but insurers have ways to react, especially via tariff increases
    - The sector remains highly rated, and most outlooks are Stable
    - Only extreme scenarios, involving sovereign debt stress, would lead to material changes in insurers credit ratings

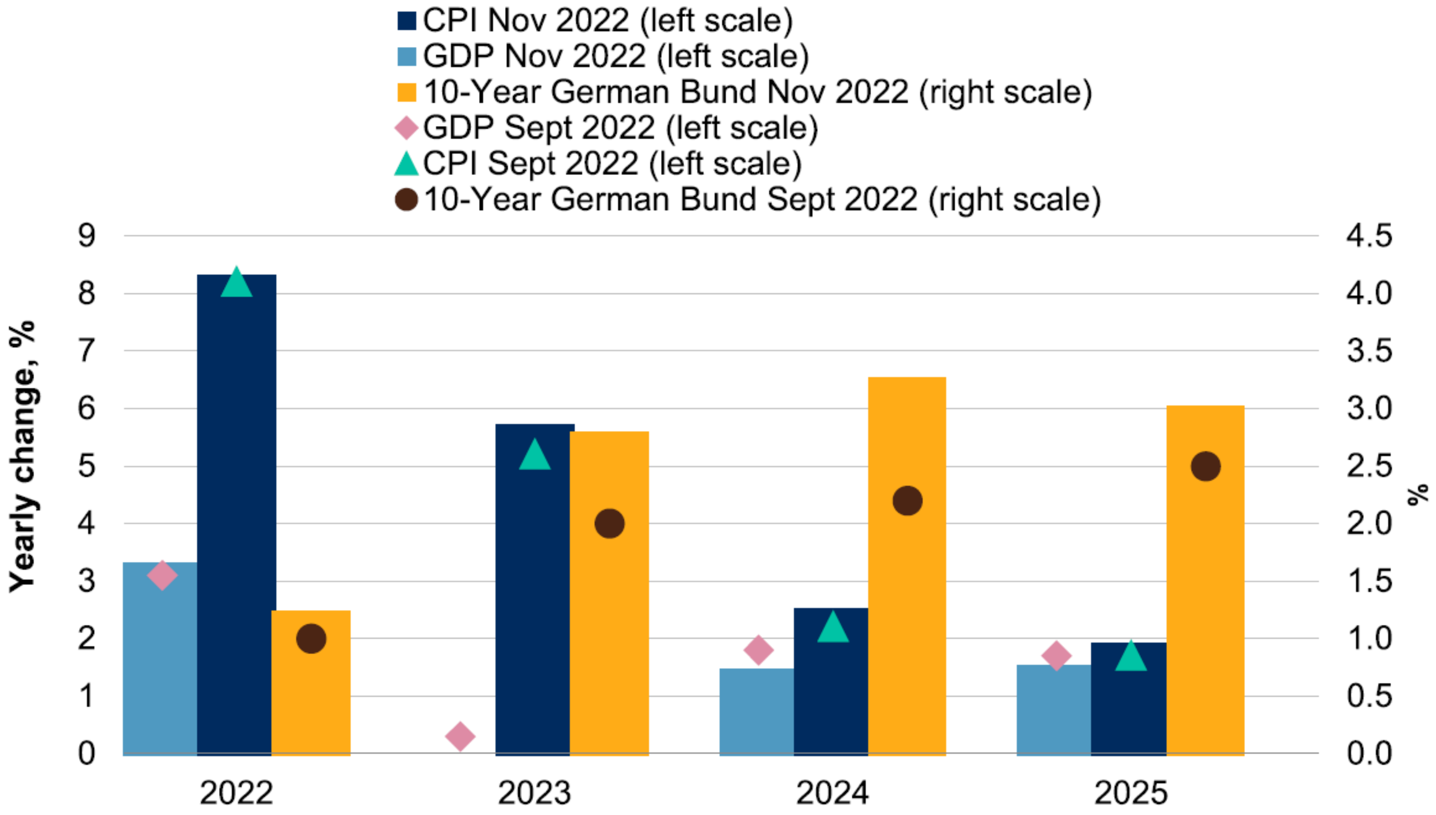
Impact is likely to be more significant for life insurers with savings business

- Dilution of fixed income investment yields is reversing but valuation of alternative assets could be under pressure
- Credited rates have to be adjusted upward

Non-life insurers could also be affected

- Cost of claims increases and leads to reserves strengthening

Comparing Our September And November 2022 Eurozone Forecasts: Marginal Changes To GDP Growth, Somewhat Stickier Inflation, Higher Long-Term Yields



CPI--Consumer price index. Source: S&P Global Ratings.

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EMEA Insurers | Resilient For Now

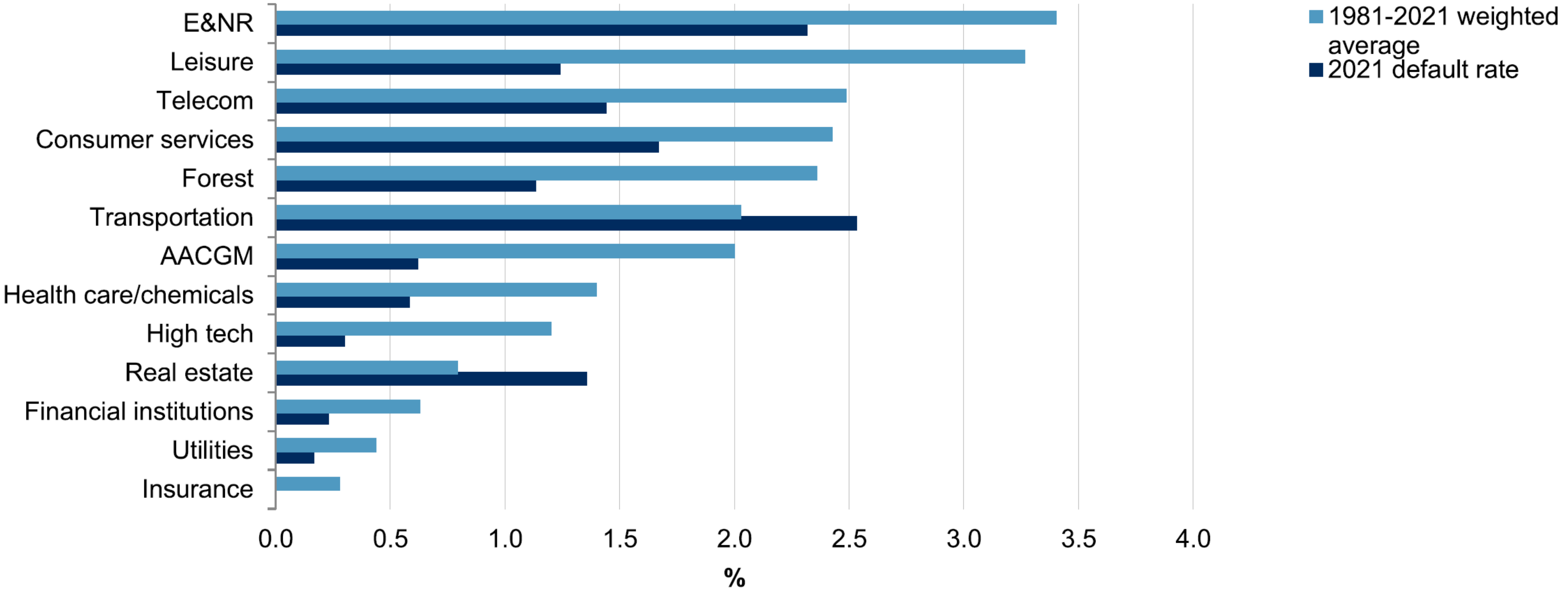
- Capital market volatility, recessionary risks, and heightened inflation pose a risk to EMEA insurers, while rising interest rates support investment income.
- We do expect operating performance to remain solid, and inflation and recessionary risks not to fundamentally question business positions in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

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

*As on Nov. 1,2022

Insurance is amongst the most resilient sector

Global Corporate Default Rates By Industry: 2021 Versus Long-Term Average



High tech--High technology/computers/office equipment. AACGM--Aerospace/automotive/capital goods/metals. Forest--Forest and building products/homebuilders. E&NR--Energy and natural resources.

Sources: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®.

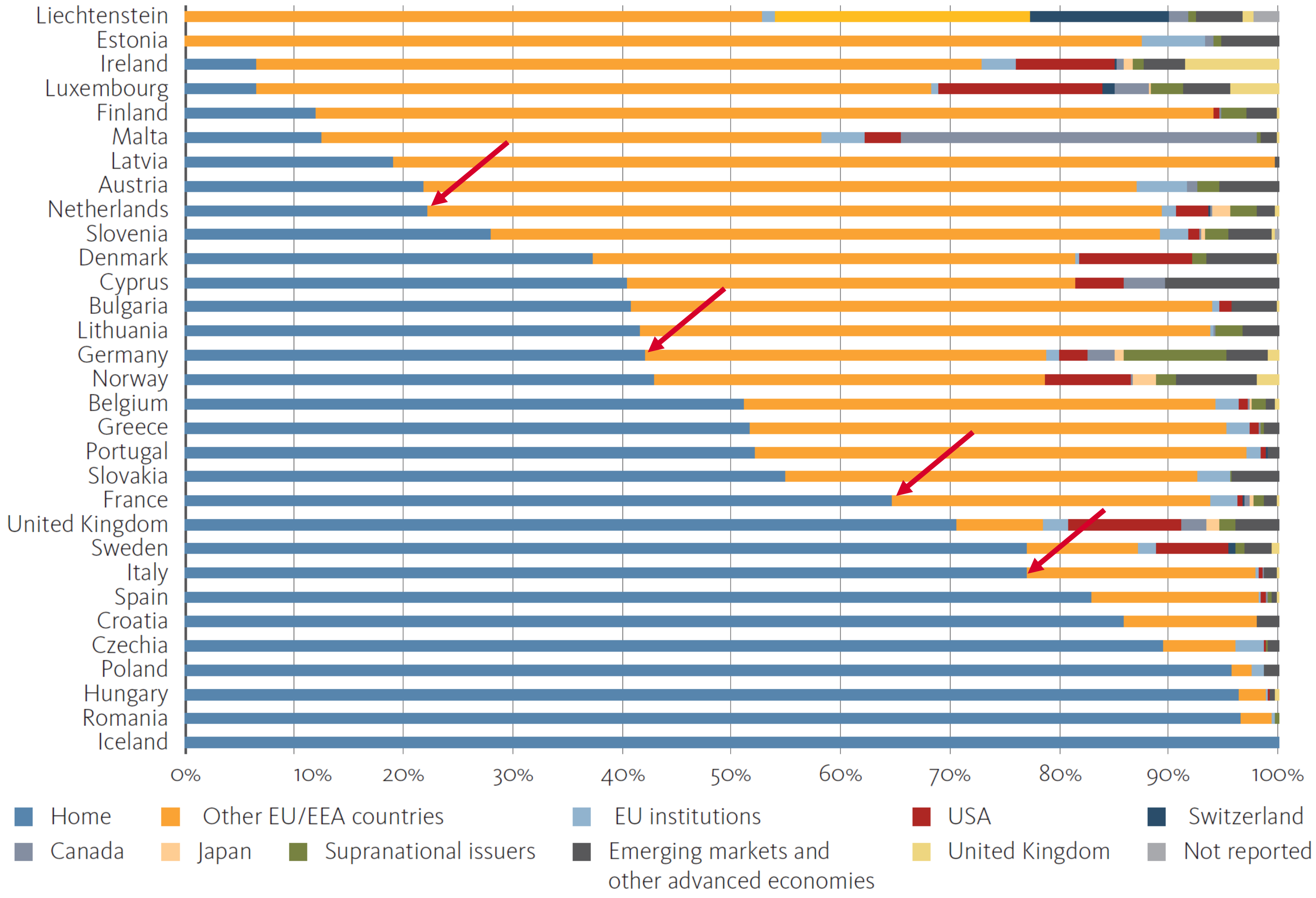
Source: Default, Transition, and Recovery: 2021 Annual Global Corporate Default Study And Rating Transitions, Apr. 13, 2022, S&P Global, Chart 2.

More significant impact is for life insurers with savings business

Fixed-income investment yield dilution has been an issue for 10+ years

- Rise in interest rates stopped the trend and even start to reverse it but credited rates need to be adjusted upward
- Long tail players, typically pension business providers, would benefit most, especially where minimum guaranteed rates are still significant
- That said, insurers have reduced ALM mismatch over recent years, which mitigates the benefit
- New entrants could try leveraging the new environment and offer attractive returns
- In addition, the valuation of alternative assets becomes more volatile: equities, corporate bonds, real estate
- This could also reduce the appetite for unit linked products
- Only extreme scenarios, involving sovereign stress, could be a threat for the sector with potential impact on both sides of the balance sheet

Cross border investments in sovereign bonds is significant



Source: EIOPA Quarterly Solo
Reference Date: Q4 2020
Note: Look-through approach is not applied. Assets held for unit-linked business are included.

Source: EIOPA; Financial Stability Report; July 2021

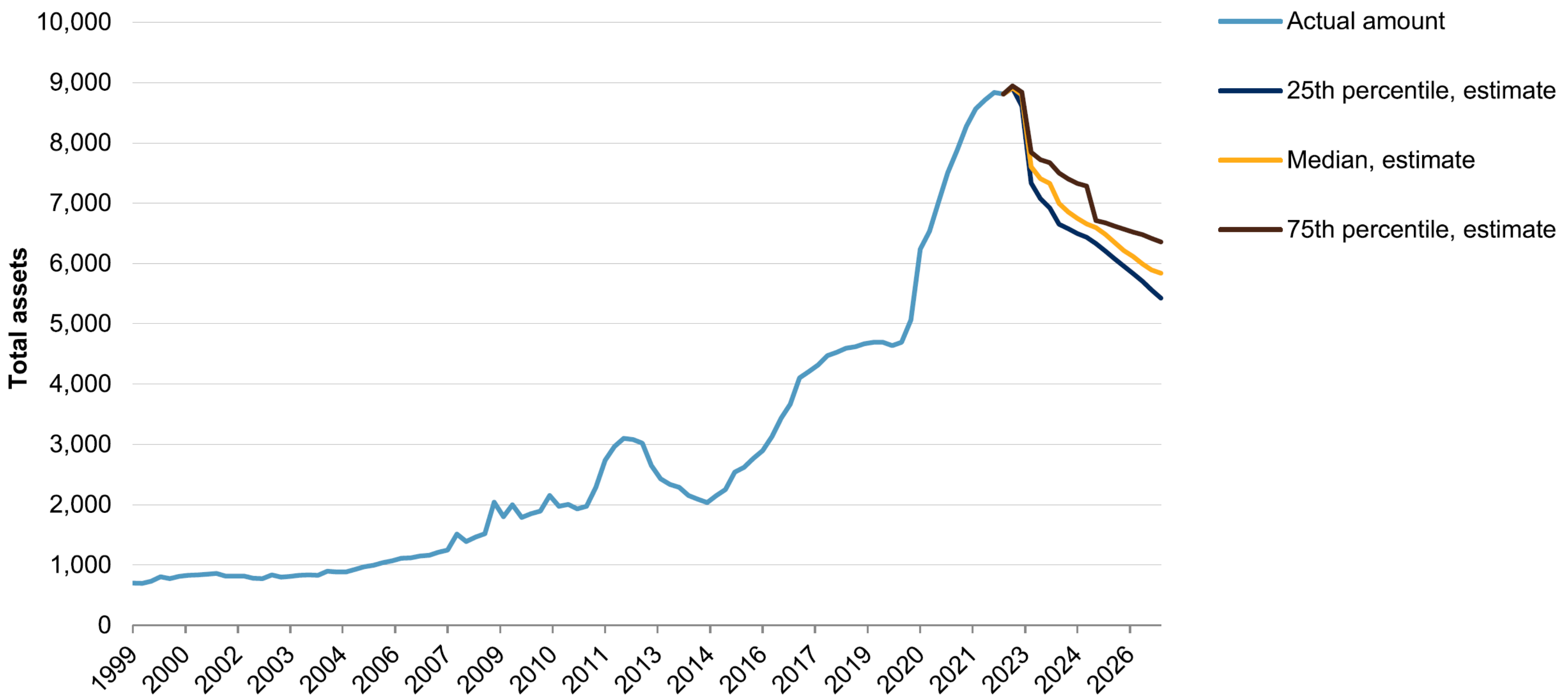
Non-life insurers are also be affected

Claims inflation is the most usual suspect

- Inflation does affect the average cost of claims, especially in motor and home insurance due to higher labour cost, scarcity of electronic components and building materials
- Long tail lines typically suffer most, notably construction and liabilities
- Symmetrically, claims paid in the form of annuity benefit from higher discount rates
- ‘Ogden’ type impact could reverse
- Claims frequency could further diminish in motor, due to higher cost of energy
- Investment yields benefit more quickly as portfolio duration is typically shorter than in life
- That said, alternative assets pricing volatility could weight
- Lastly, higher inflation does not automatically mean higher interest rates and Central banks behavior will be critical

Central Bank Support Had Ballooned

Market Expectations Are For A Reduction Of The ECB's Balance Sheet By Almost €3 Trillion Over The Next Three Years
Simplified balance sheet of the Eurosystem, Bil. €



Sources: ECB Survey of Monetary Analysts of October 2022, S&P Global Ratings.

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Appendix

Ratings Score Snapshot: French & European Insurers

	Business Risk Profile	Competitive Position	IICRA (1)	Financial Risk Profile	Capital and Earnings	Risk Exposure	Funding Structure	Anchor	Governance	Liquidity	CRA	Financial Strength Rating (2)
French (Re)Insurers												
AG2R La Mondiale	**Strong**	Strong	Low	**Very Strong**	Very Strong	Moderately Low	Neutral	**a**	Neutral	Exceptional	0	**A/Stable**
AXA	**Very Strong**	Excellent	Intermediate	**Strong**	Strong	Moderately Low	Neutral	**aa-**	Neutral	Exceptional	0	**AA-/Stable**
BNP Paribas Cardif	**-**	-	-	**-**	-	-	-	**-**	-	-	-	**A/Stable**
Caisse Centrale de Réassurance	**Strong**	Strong	Intermediate	**Strong**	Excellent	High	Neutral	**a**	Neutral	Adequate	0	**AA/Negative**
CCR Ré	**Satisfactory**	Satisfactory	Intermediate	**Strong**	Very Strong	Moderately High	Neutral	**a-**	Neutral	Adequate	0	**A-/CW Positive**
CGPA	**Satisfactory**	Satisfactory	Intermediate	**Very Strong**	Very Strong	Moderately Low	Neutral	**a-**	Neutral	Exceptional	0	**A-/Stable**
CNP Assurances	**Strong**	Strong	Low	**Very Strong**	Very Strong	Moderately Low	Neutral	**a+**	Neutral	Exceptional	0	**A+/Negative**
Covéa	**Very Strong**	Very Strong	Intermediate	**Very Strong**	Excellent	Moderately High	Neutral	**aa-**	Neutral	Exceptional	0	**AA-/Stable**
Credit Agricole Assurances	**-**	-	-	**-**	-	-	-	**-**	-	-	-	**A/Stable**
Malakoff Humanis	**Strong**	Strong	Low	**Very Strong**	Excellent	Moderately High	Neutral	**a+**	Neutral	Exceptional	0	**A+/Stable**
Prévoir	**Satisfactory**	Satisfactory	Low	**Very Strong**	Very Strong	Moderately Low	Neutral	**a-**	Neutral	Exceptional	0	**A-/Stable**
SCOR	**Very Strong**	Very Strong	Low	**Satisfactory**	Strong	Moderately High	Neutral	**a+**	Neutral	Exceptional	0	**A+/Stable**
SMABTP	**Strong**	Strong	Intermediate	**Excellent**	Excellent	Moderately Low	Neutral	**a+**	Neutral	Exceptional	0	**A+/Stable**
Sogecap	**-**	-	-	**-**	-	-	-	**-**	-	-	-	**BBB+/Stable**
European Insurers												
Ageas	**Strong**	Strong	Intermediate	**Very Strong**	Very Strong	Moderately Low	Neutral	**a+**	Neutral	Exceptional	0	**A+/Stable**
Allianz	**Very Strong**	Excellent	Intermediate	**Very Strong**	Very Strong	Moderately Low	Neutral	**aa**	Neutral	Exceptional	0	**AA/Stable**
Swiss Life	**Strong**	Strong	Low	**Very Strong**	Very Strong	Moderately Low	Neutral	**a+**	Neutral	Exceptional	0	**A+/Stable**
Zurich	**Very Strong**	Excellent	Intermediate	**Very Strong**	Very Strong	Moderately Low	Neutral	**aa**	Neutral	Exceptional	0	**AA/Stable**

1) IICRA – Insurance Industry And Country Risk Assessment
2) Financial strength rating on core operating subsidiaries as of April 20, 2023

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Thank you!

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