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Market Segment Outlook: Germany Life Insurance

The current positive interest rate environment allows insurers to offer competitive crediting rates to policyholders while maintaining a margin to support profitability.

AM Best has revised its outlook for the German life insurance segment to Stable from Negative.

The revision of the outlook to Stable primarily reflects the stabilisation of key trends for the segment in the current positive interest rate environment.

The Stable outlook also reflects the following considerations:

- Resilience in top line despite economic uncertainty
- Higher interest rate environment provides more favourable conditions
- Stable regulatory environment

Resilience in Top Line Despite Economic Uncertainty

Life insurance premium income is expected to remain resilient over the next 12 months, despite uncertainty and constrained economic conditions in the country.

Gross written premium for the segment has exhibited varying levels of growth and decline in the most recent five-year period, largely as a result of volatility in the level of single premium products sold in different years. However, the overall top line has been resilient and AM Best expects modest growth in premiums for 2026.

At the same time, surrender rates are expected to remain largely stable and at a manageable level for the industry, as has been the case over the recent period. The segment benefits from high levels of consumer loyalty, despite sometimes difficult economic conditions.

Higher Interest Rates Provide More Favourable Conditions for Life Insurers

In AM Best's opinion, the end of the zero interest rate period is good news for the segment. The current positive interest rate environment allows insurers to offer competitive crediting rates to policyholders while maintaining a margin to support profitability. Insurers' crediting rates are expected to keep pace with other non-insurance market savings products to maintain their competitiveness.

Investment income for the segment benefits from improved reinvestment yields, as older bonds reach maturity.

The segment's transition to capital-light products continues, albeit slowly. Capital-light products offer either no guarantee or flexible guarantee features, which gives insurers the ability to better manage the products in different interest rate environments.

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Back-books with high guarantees are slow to run-off due to high policyholder persistency rates for these products. However, the positive interest rate environment has made the guarantees on these back-books easier to cover through a combination of investment income and the gradual release of the Zinszusatzreserve (ZZR).

Stable Regulatory Environment

The segment benefits from a stable regulatory environment. The implementation of a review of the Solvency II regime, expected in 2027, will likely benefit insurers by bringing some capital relief.

Economic Overview

According to the October 2025 IMF World Economic Outlook, Germany's economic growth is projected to increase from 0.2% in 2025 to 0.9% in 2026, marking a gradual recovery following two consecutive years of contraction. The economy fell into recession in 2023 as global trade disruptions weakened demand for German exports, while elevated energy costs eroded competitiveness in energy intensive manufacturing and industrial sectors.

Economic growth in 2026 is expected to be supported by a modest recovery in exports, alongside firmer private investment and household consumption, underpinned by a resilient labour market and real wage gains. Fiscal policy is also expected to remain supportive, with substantial public spending directed towards defence, infrastructure, and the energy transition, helping to reinforce medium-term growth and investment. However, downside risks remain and include weaker than expected global demand and renewed trade tensions.

Germany's inflation rate is expected to be broadly aligned with the European Central Bank's (ECB) 2.0% target over the coming year.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

A market segment outlook reflects AM Best's forward-looking assessment of the expected operating environment and conditions within a segment over the next 12 months. It is based on factors such as economic conditions, the regulatory environment, the competitive landscape, as well as performance trends and other considerations. The outlook provides context for how these factors collectively shape the segment's trajectory.

A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be Positive, Negative, or Stable.

Best's Market Segment Outlook

Positive	A Positive outlook indicates that market conditions are expected to improve or support operations and strong performance within the segment over the next 12 months.
Stable	A Stable outlook suggests that market conditions are expected to remain broadly consistent with the current environment, with no material positive or negative shifts anticipated with the segment over the next 12 months.
Negative	A Negative outlook signifies that market conditions are expected to deteriorate or present challenges to operations and performance within the segment over the next 12 months..

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BEST'S MARKET SEGMENT REPORT

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