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Market Segment Outlook: Italy Life Insurance

The interest rate environment provides favourable conditions for life insurers, allowing them to maintain healthy profit margins and investment returns.

AM Best has revised its outlook on the Italian life insurance segment to Stable from Negative.

The revision of the outlook to Stable primarily reflects the improvement in lapses and AM Best expectations that companies can continue to adjust to keep positive net inflows.

The Stable outlook also reflects the following factors:

- Robust top line development.
- Highly concentrated market.
- Manageable fiscal burden from the 2026 Budget Law.
- Regulation focused on preserving liquidity.

Robust Top Line Development

AM Best expects life insurance premium income to remain resilient in 2026, consolidating its recovery trend. Demand for both traditional and unit-linked products is expected to drive top line growth, although global geopolitical tensions and financial markets' volatility have the potential to limit the development of the market in the short to medium term.

The interest rate environment provides favourable conditions for life insurers, allowing them to maintain healthy profit margins and investment returns.

Additionally, net inflows are expected to remain healthy and surrenders largely manageable, reversing a trend that has been a headwind for the industry in recent years. According to Associazione Nazionale fra le Imprese Assicuratrici (ANIA), Italy's life segment recorded a net inflow of EUR 9.9 billion in 2025, compared to a net outflow of EUR 3.5 billion the previous year.

The sharp improvement is attributable to both traditional and unit-linked products. Favourable developments in the financial markets have increased the willingness of Italian savers to take on investment risk through unit-linked products, in conjunction with interest rate cuts in 2024 that diminished the attractiveness of deposits and domestic Government bonds (BTPs) as alternatives to traditional saving products. However, AM Best notes that BTPs will remain an attractive savings alternative as they offer a 10-year yield above 3.5%—among the highest in the eurozone—and domestically are widely considered low-risk, free-from-fees, and tax efficient.

Italy's life insurance segment remains dominated by traditional savings policies, posing a challenge for Italian life insurers' product mix diversification. Demand for unit-linked products is supporting the segment's slow transition to capital-light products in an effort to improve capital efficiency and revenue diversification.

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Highly Concentrated Market

The Italian life insurance segment continues to exhibit an elevated level of concentration, both by market participants and distribution channels. Roughly half of total life premiums are written by three companies and distributed through bancassurance channels. These two factors act as barriers to entry for new companies and prevent smaller participants from gaining market share.

Manageable Fiscal Burden from the 2026 Budget Law

The 2026 Budget Law introduces a permanent contribution from Italian banks and, to a lesser extent, insurance companies. Provisions in the law include the suspension of Deferred Tax Asset (DTA) deductions, and a 2% increase in the regional tax on production activities (IRAP).

AM Best expects these measures not to put significant pressure on profit margins for life insurers, with the impact largely manageable as the additional costs will likely be passed on to policyholders.

Regulation Focused on Preserving Liquidity

The Italian regulatory environment is expected to remain consistent and in line with the rest of the European Union (EU) with an increased focus on liquidity for life companies.

The review of Solvency II, to be implemented by January 2027, will bring some capital relief to the sector, primarily driven by the use of a lower cost of capital ratio in the calculation of the risk margin. In addition, the review includes a number of refinements of measures aimed at stabilising the solvency ratio against short-term volatility.

The regulator's focus on liquidity risk management is demonstrated by additional reviews of intra-group liquidity lines, as well as close monitoring of lapse risk through mandatory mass lapse scenarios within the ORSA and the fully operational Life Insurance Guarantee Fund (Fondo Garanzia Vita), which aims to facilitate portfolio transfers for troubled life insurers. In addition, the Istituto per la Vigilanza sulle Assicurazioni (IVASS) extended the option to suspend the recognition of unrealised losses on non-durable investments for fiscal years 2025 and 2026, provided that an amount equivalent to the loss is allocated to non-distributable profit reserves, giving greater stability to reported balances.

Economic Overview

According to the International Monetary Fund's (IMF) April 2026 projections, Italy's real gross domestic product (GDP) growth is expected to remain at 0.5% in 2026 and 2027. Growth will be supported by the EU's Next Generation transfers and the country's services sector. While economic growth has remained positive, it lags the Euro Area which is projected to grow by 1.1% and 1.2% in 2026 and 2027, respectively. Short-term risks to the downside include higher US tariffs, a stronger euro and ongoing global uncertainty. Longer-term structural challenges include an aging population and a shrinking workforce, though recent immigration inflows should somewhat mitigate the issue.

Inflation is projected to rise from 1.6% in 2025 to 2.6% in 2026 and 2.4% in 2027, which is above the European Central Bank's (ECB) target of 2.0%. The ECB last lowered its policy rate in June 2025 to 2.0% and has kept rates unchanged since then. A renewed rise in energy-driven inflation would likely complicate the monetary policy outlook by delaying further easing and requiring the ECB to maintain a restrictive stance for longer.

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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