

Our Insight, Your Advantage™

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AM Best expects 2024 to be a year of stabilisation and slow recovery for Italy's life insurers, with the major headwinds losing momentum, although challenges remain

Market Segment Outlook: Italy Life Insurance

AM Best is maintaining its outlook on the Italian life insurance segment at Negative, owing to the following factors:

- Net volumes still under pressure.
- Investment returns are expected to improve, benefiting policyholders and issuers, though volatility may be an issue.
- Shift to capital-light products reversed.

Net Volumes Still Under Pressure

AM Best expects life insurance premium growth in Italy to remain constrained in 2024, as the segment's top line is sensitive to the wider economic conditions due to its concentration on savings business.

According to the International Monetary Fund (IMF), Italy's inflation is projected to stabilise and real gross domestic product (GDP) growth is projected at 0.7% in 2024.

Following an easing up in inflation and interest rates plateauing, the economic environment in Italy is expected to stabilise and exhibit a trend of low growth. The Italian Government's National Recovery and Resilience Plan should also contribute to the country's improving economic conditions.

AM Best also expects 2024 to be a year of stabilisation and slow recovery for Italy's life insurers, with the major headwinds losing momentum, although challenges remain. Premiums from traditional savings products are expected to benefit from the improved economic conditions within the country, leading to an overall moderate recovery of volumes throughout the year.

The risk of a mass lapse event has lessened and is not expected to materialise. However, competition from other investment products offering higher returns will likely continue to constrain growth in 2024. Moderate levels of lapses are likely to maintain pressure on net volumes for the segment.

According to Associazione Nazionale fra le Imprese Assicuratrici (ANIA), Italy's life segment recorded a net outflow of EUR 22.7 billion during 2023, which compares with a net inflow of EUR 14 billion the previous year.

A spike in surrenders across all types of products, most notably unit-linked, was a major contributor to the outflows. The higher number of lapses can be attributed to policyholders' decision to redeem money and reinvest in more remunerative financial products, whose returns improved thanks to higher interest rates.

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Additionally, gross written premiums decreased by 3.2% year-on-year, as a result of a severe contraction in unit-linked premiums that more than offset the moderate growth in traditional savings products.

Improved Investment Returns to Benefit Policyholders and Insurers

AM Best expects profitability in Italy's life segment to remain healthy in 2024, supported by increased investment returns in insurer's own portfolios. However, potential volatility in financial markets could impact the segment's results.

After a decade of expansionary monetary policy from the European Central Bank (ECB), the "lower for longer" interest rate environment came to an end in 2022.

Insurers faced several difficulties during the transition period following the sharp uptick in interest rates, which translated into significant investment losses, although these remained mainly unrealised.

However, the rate hikes ceased after topping at 4.5% in October 2023. In June 2024, the ECB cut the interest rate by 25 basis points. Italian Government bonds yields showed a substantial stabilisation in the range of 4% to 5% throughout 2023, before declining to around 3.8% during the first quarter of 2024.

The Italian life segment is expected to benefit from higher returns in 2024 both in their own portfolios and savings books. The higher interest rate environment should allow insurers to offer improved returns to policyholders and to enhance attractiveness of their savings products.

However, returns offered to policyholders are lagging compared with other investment alternatives such as government bonds or bank deposits, given that insurers' savings books are burdened by the backlog of low yielding instruments.

Therefore, insurers will need to find strategies to remain competitive against these alternatives. Attractive features of insurance saving products, including fiscal benefits, are expected to play a major role as competitive advantages for insurers.

Shift to Capital-Light Products Reversed

Between 2019 and 2021-2022, Italian life insurers gradually saw a shift in product mix from guaranteed saving products to capital-light products, although the majority of life reserves still remain tied to traditional savings products.

The demand for unit-linked and hybrid products, where the risk is borne by the policyholders, is dependent on the willingness of Italian savers to take on investment risk. There was a surge in demand for this kind of product in 2021 due to the economic recovery in the country and the upturn in financial markets.

However, economic uncertainty, and volatility in financial markets, in the second half of 2022 particularly impacted the sale of unit-linked products.

The ratio of unit-linked premiums to total new business steadily fell from around 60% at the beginning of 2022 to below 30% in December 2023. Additionally, the strong increase in surrenders for unit-linked products led to a total net outflow of EUR 7.7 billion in 2023, for unit-linked products.

AM Best considers the increase in concentration on traditional saving products as a backwards step for the segment, following the significant effort that Italian life insurers made in recent years to diversify their portfolios towards capital-light products. Insurers will need to navigate this new environment with the objective of maintaining a well-balanced business mix, which will be a challenge considering that strong demand for guaranteed savings products is expected to continue in coming years.

The Italian life segment has managed to navigate challenges such as rising inflation, interest rates hikes and volatility in financial markets in recent years. However, while the higher interest rate environment represents a good opportunity for the Italian life segment over the medium term, concerns remain around the trend in lapses. AM Best could revise its outlook to Stable once the lapse trend improves, supported by improving economic conditions.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook

Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
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