

May 22, 2024

Market Segment Outlook: France Life Insurance

Although life insurance products remain one of the preferred investment options, competition from other investment products offering higher rates is expected to remain a headwind

AM Best is maintaining its Negative outlook on France's life insurance segment. Factors considered include:

- High interest rates and inflation continue to weigh on top-line growth.
- Constrained margins tied to lagging investment returns.
- Growing product mix diversification despite some set-backs.

High Interest Rates and Inflation Continue to Weigh on Top-Line Growth

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

According to the latest projections of the French central bank, Banque de France, economic activity is expected to recover slowly, with real Gross Domestic Product (GDP) growth of 0.8% in 2024, reflecting the delayed effect of the uptick in inflation and interest rates on the French economy and its negative impact on households' disposable income. Over the medium term, the higher interest rate environment is expected to have a positive impact on the life insurance segment, however AM Best expects the segment's top-line growth to remain constrained by competition from other savings products.

Although life insurance products remain one of the preferred investment options in France, competition from other investment products offering higher rates is expected to remain a headwind for the segment in 2024. As an example, crediting rates for life insurance products in 2024 (for the year 2023) are in general below or close to yields on 10-year sovereign debt (Obligations Assimilables au Trésor - OAT) and below the rates for the tax efficient saving product—Livret A—which stand at 3%.

The combined effect of slow economic recovery and competition from other products make growth prospects lacklustre for the segment over the next 12 months. As a result, surrenders on fixed savings (fonds en euros) contracts could cause outflows to continue to increase over the next year. AM Best previously observed this trend in 2023, when net flows were negative for fixed savings.

The good performance of financial markets, together with the efforts from insurers to continue to develop their capital-light product offerings, led to further growth in unit-linked products in 2023. AM Best expects this growth to continue for a number of years, as companies look to increase their share of capital-light products. However, given the higher risk borne by the policyholder, it is likely that future periods of volatility in financial markets will also lead to swings in demand for unit-linked products.

Analytical Contacts:

James Kenfack, Amsterdam
+31 20 808 2272
james.kenfack@ambest.com

Morgane Hillebrandt, Amsterdam
+31 20 808 3176
morgane.hillebrandt@ambest.com

Editorial Managers:

Richard Banks, London
+44 20 7397 0322
richard.banks@ambest.com

Richard Hayes, London
+44 20 7397 0326
richard.hayes@ambest.com

2024-064

In 2023, the market saw a divergence between bancassurers and traditional insurers, with net flows being positive for bancassurers – boosted by inflows in unit-linked products – while traditional life insurers saw a reduction in inflows into this kind of product compared with the previous year. As bancassurers already have a market share of more than 60% for life products, this was of particular benefit to them.

Although headwinds are expected to persist in 2024, a significant increase in surrenders on life insurance contracts is not expected, though AM Best notes that overall surrender levels in France's life segment have been higher than in certain other European markets. Life insurance products remain one of the preferred investment products in France, owing to attractive tax advantages tied to life insurance contracts.

The loss of tax advantages in case of early surrender is considered to be a positive factor for the segment, as it encourages policyholders to keep their contracts over the longer term. AM Best also notes that although crediting rates on Livret A are generally above the rates on life insurance products, the amounts which can be invested in Livret A are capped, which is mitigating the impact of competition.

Constrained Margins Tied to Lagging Investment Returns

The announcement by life insurers of higher crediting rates on fixed saving products in 2024 (for the 2023 policy year) are seen as a positive factor for the segment. Over the longer term, the segment is expected to benefit from higher margins as insurers' own portfolio returns are expected to gradually increase thanks to higher yields on recent investments. However, over the next 12 months, AM Best expects margins to remain constrained as most companies in the segment continue to be in unrealised loss positions regarding their fixed income portfolios. This constrains their ability to invest in new securities at better yields.

In order to protect their market share, a large number of life insurers have chosen to fund extra crediting rate boosts through the release of a share of their crediting reserves, *Provision pour participation aux bénéfices* (PPB), built up over the past years. AM Best expects these announcements to help reinforce the segment's attractiveness over the short term.

The percentage of crediting reserves compared with overall reserves for the segment has increased over the last years. However, the decision to put aside crediting reserves remains a choice at the insurance company level and although generally high, the current level of crediting rates reserves varies significantly among insurers.

During the low interest rate period, some insurers chose to limit the amount of crediting reserve to provide better rates to their policyholders, resulting in a reduced ability to boost rates through release of such reserves in the current market.

Growing Product Mix Diversification Despite Some Set-Backs

In recent years the life segment's premium mix has tended to shift towards capital-light offerings, as insurers tried to reduce their concentration to fixed savings business which is more capital consuming.

While the majority of life reserves still remains tied to fixed savings products, the growth in capital-light products such as unit-linked funds or multi-support offerings – which combine capital-light offerings with traditional products where the risk is borne by the insurer – has been significant in recent years. Although rising interest rates over the last months have compelled life insurers

to further promote their fixed savings business and to boost crediting rates to mitigate the risk of disintermediation, the shift towards capital-light products is expected to continue.

The legislative reform of the French pension system that took place in 2023 is also expected to have a positive impact on the segment. Although the effect of much of the impact remains to be seen, the reform has already boosted the popularity of the Plan d'épargne retraite (PER – a retirement product), which is expected to continue to provide diversification for longevity risk to the segment in 2024. PER premiums will likely continue to grow, boosted by France's pension reforms, which have increased the attractiveness of retirement products.

In overall terms, the higher interest rate environment represents a good opportunity for the segment over the medium term. However, AM Best expects the segment will remain under pressure over the next year. Further outflows over the next 12 months, combined with pressure on margins driven by the need to maintain competitive crediting rates are a headwind for the segment. However, AM Best could revise the outlook to Stable once outflows start to slow down, alongside 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.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

Copyright © 2024 A.M. Best Company, Inc. and/or its affiliates. All rights reserved. No portion of the content may be reproduced, distributed, or stored in a database or retrieval system, or transmitted, or uploaded into any external applications, bots or websites, including those using artificial intelligence technologies such as large language models and generative AI in any form or by any means without the prior written permission of AM Best. AM Best does not warrant the accuracy, completeness, or timeliness of the AM Best content. While the content was obtained from sources believed to be reliable, its accuracy is not guaranteed. You specifically acknowledge that neither AM Best nor the content gives any investment, financial, tax, insurance, or legal advice. You are solely responsible for seeking competent professional advice before making any investment, financial, tax or insurance decision. For additional details, refer to our Terms of Use available at the AM Best website: www.ambest.com/terms.

Published by AM Best
BEST'S MARKET SEGMENT REPORT

A.M. Best Company, Inc.
 Oldwick, NJ

CHAIRMAN, PRESIDENT & CEO Arthur Snyder III
SENIOR VICE PRESIDENT & TREASURER Cynthia Young
SENIOR VICE PRESIDENT Lee McDonald

A.M. Best Rating Services, Inc.
 Oldwick, NJ

PRESIDENT & CEO Matthew C. Mosher
EXECUTIVE VICE PRESIDENT & COO James Gillard
EXECUTIVE VICE PRESIDENT & CSO Andrea Keenan
SENIOR MANAGING DIRECTORS Edward H. Easop, Stefan W. Holzberger, James F. Snee

AMERICAS

WORLD HEADQUARTERS

A.M. Best Company, Inc.
 A.M. Best Rating Services, Inc.
 1 Ambest Road, Oldwick, NJ 08858
 Phone: +1 908 439 2200

MEXICO CITY

A.M. Best América Latina, S.A. de C.V.
 Av. Paseo de la Reforma 412, Piso 23,
 Col. Juárez, Alcaldía Cuauhtémoc, C.P. 06600, México, D.F.
 Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)

LONDON

A.M. Best Europe - Information Services Ltd.
 A.M. Best Europe - Rating Services Ltd.
 12 Arthur Street, 8th Floor, London, UK EC4R 9AB
 Phone: +44 20 7626 6264

AMSTERDAM

A.M. Best (EU) Rating Services B.V.
 NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
 Phone: +31 20 308 5420

DUBAI*

A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
 Office 102, Tower 2, Currency House, DIFC
 P.O. Box 506617, Dubai, UAE
 Phone: +971 4375 2780

*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC

HONG KONG

A.M. Best Asia-Pacific Ltd
 Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
 Phone: +852 2827 3400

SINGAPORE

A.M. Best Asia-Pacific (Singapore) Pte. Ltd
 6 Battery Road, #39-04, Singapore
 Phone: +65 6303 5000



Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of credit-worthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.