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# Market Segment Outlook: France Non-Life Insurance

**AM Best expects that investment returns will be a significant contributor to profitability in 2024, driven mainly by higher yields on insurer's fixed income portfolios**

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

- Modest real top-line growth on an inflation-adjusted basis.
- Inflation impact on profitability in light of strong competition.
- Volatility sustained by the upsurge in social unrest and climate-related hazards.

## Modest Real Top-Line Growth on an Inflation-Adjusted Basis

While AM Best expects overall non-life premium income in France to continue to grow in 2024, that growth is likely to be modest once adjusted for inflation. Top-line growth for France's non-life segment has historically been closely correlated to gross domestic product (GDP) growth.

The French central bank, Banque de France is forecasting real GDP growth of only 0.8% for 2024, reflecting the delayed effect of the uptick in inflation and interest rates on the economy as well as its negative impact on households' disposable income. This suggests relatively modest growth prospects for France's non-life insurers.

France's non-life segment has historically enjoyed a good level of diversification, with the top two lines-motor and fire & property-representing 21% and 20% of collected premiums respectively at half-year 2023, according to the French regulator, Autorité de Contrôle Prudentiel et de Résolution (ACPR).

While growth in these products on an inflation-adjusted basis is typically aligned with real GDP growth, there are newer products such as cyber for example, allowing for more substantial growth, albeit from a small base.

## Inflation Impacts Profitability in Light of Strong Competition

AM Best believes that inflationary pressures will continue to pose challenges for non-life insurers in 2024 by pushing up claims costs. Premium rate increases during 2023 were constrained following the commitment of the insurance industry to a series of anti-inflation measures. As a result, cost increases were mostly absorbed by insurers.

Further rate increases will likely be seen in 2024 as insurers aim to offset the effects of the claims inflation seen over the last couple of years. Increases in the price of spare parts, as well as increase in bodily injury costs, have contributed to claims inflation in lines such as motor. Insurers are expected to adjust their premium rates going forward to counterbalance the inflation-linked deterioration in technical results.

AM Best considers it unlikely that these increases will be sufficient to fully restore profitability due to high levels of competitive pressures. Historically, technical performance is typically only

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modestly profitable or break-even for the segment. However, the actions taken should help to lower the retail line combined ratio, which stood at 102.9% in 2023 according to France Assureurs.

The complementary health line's profitability is also expected to remain limited over 2024, reflecting the experience of 2023 when the line was impacted by soaring costs tied to the increases in medical costs and certain covers like dental insurance. As a result, complementary health insurers' margins are expected to remain constrained.

AM Best expects that investment returns will be a significant contributor to profitability in 2024, driven mainly by higher yields on insurer's fixed income portfolios. The uptick in interest rates over the last two years translated into significant investment losses for insurers in 2022 and 2023, although these were mainly unrealised and are unwinding as investments mature. However, AM Best notes that the contribution of investment returns to bottom line results is expected to increase over the next few years, as insurers are able to secure higher yields.

### Volatility, Sustained by the Upsurge in Social Unrest and Climate-Related Hazards

The increase in frequency and severity of natural catastrophe events related to changing climate trends is expected to put pressure on the technical performance of France's non-life insurers, despite the existence of the state-backed natural catastrophe scheme, through reinsurer Caisse Centrale de Réassurance (CCR).

French non-life insurers generally benefit from unlimited cover against natural catastrophe risks offered by the state-backed reinsurer. This system has historically largely protected the non-life segment against technical volatility tied to natural weather events. However, in line with the increase in claims over recent years, the financing of the state-backed scheme had to be reviewed in order for it to remain sustainable.

As a result, insurers' contribution to the scheme will increase from 2025. The increased contribution will be collected through a surcharge on premiums, but while these are expected to reach EUR 1.2 billion per year, AM Best believes that it will not be sufficient over the medium term as climate-related events and claims could increase significantly.

AM Best expects that insurers will pass on the effects of the surcharge to their policyholders in an effort to limit pressure on their margins. However, this could constrain their ability to pass on other rates increases, such as those tied to inflationary pressures or other changes to market conditions.

In addition, social unrest and heightened geopolitical tensions are expected to further pressure margins. In 2023, non-life insurers experienced large man-made losses from riots and large protest movements throughout the country.

Overall, modest growth prospects, claims inflation and higher volatility from natural catastrophe and man-made events are expected to remain headwinds for France's non-life segment over the next year. The segment's profitability is expected to remain constrained due to high competitive pressures. AM Best could revise the outlook if inflationary claims pressures decline and premium levels continue to grow, supported by economic recovery.

# GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

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BEST'S MARKET SEGMENT REPORT

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