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Market Segment Outlook: Germany Non-Life Insurance

AM Best believes that high motor repair, as well as building, costs remain a challenge for the segment

AM Best is maintaining its Negative outlook for the German non-life insurance segment.

Factors considered include:

- Moderate growth prospects on an inflation-adjusted basis
- Persistent claims inflation and competitive environment affecting underwriting profitability
- Natural Catastrophe losses led to higher volatility due to a change in reinsurance structures

Moderate Growth Prospects on an Inflation-Adjusted Basis

AM Best expects the German non-life segment to experience premium growth on a nominal basis over the next 12 months, although premium levels will likely be static or show marginal growth only on a real basis.

Premium growth levels are reflecting inflation-driven rate adjustments but remain subdued by weak economic growth and an increasingly competitive environment.

Premium growth in Germany's non-life insurance segment has historically been correlated with the state of the economy.

Germany's economy is expected to continue to show a path of sluggish recovery in 2025, in the face of continued headwinds, such as the recent collapse of the German coalition government and high industrial energy costs.

The International Monetary Fund (IMF) expects gross domestic product (GDP) growth to be absent (0% growth) in 2024, in part attributed to what appears to be a trend towards the beginning of a German deindustrialisation, a continuing stagnation of private consumption and weakness in interest-rate-sensitive sectors.

The latest economic trajectory is likely to lead to a modest but underwhelming economic recovery over the next 12 month, underpinned by the IMF's current GDP growth forecast for 2025 of 0.8%.

All major non-life insurance business lines achieved premium growth in the first six months of 2024, benefiting largely from robust inflation-adjusted price momentum. AM Best assumes that the need to continue to enforce strong price increases to offset claims inflation and reinsurance costs, as well as the impact of inflation on insured values, will lead to higher premium levels, either through repricing or automatic rate adjustments.

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Persistent Claims Inflation and Competitive Environment Affecting Underwriting Profitability

AM Best expects inflationary pressures to continue to pose challenges for non-life insurers.

German non-life insurers have the flexibility to manage temporary increases in prices, however AM Best believes that stubbornly high motor repair, as well as building, costs remain a challenge for the segment.

Rate adjustments will likely only partly offset the increasing claims cost and AM Best considers it unlikely that these rate increases will be sufficient to fully restore profitability to levels seen prior to 2021.

AM Best predicts the segment will report an average net combined ratio close to breakeven at year-end 2024. That result might marginally improve in 2025 as more rate discipline feeds through in response to continued claims inflation and a larger number of weather-related larger losses during 2024.

Claims expenses are expected to remain magnified by high inflation pressures on the costs of repair and spare parts, with those pressures only expected to ease gradually during the second half of 2025 or early 2026.

Although inflation has started to decrease steadily during 2024, claims inflation trends have remained sticky during the second half of 2024. This is partly because the development of claims inflation trends tends to lag changes in consumer price index.

Insurers raised premium rates during the main motor policy renewal round in January 2024 in response to the drop in technical results, however, most failed to fully reflect the intensity of claims inflation in the prior year.

Competitive Environment Maintains Pressure on Pricing

AM Best also believes that the competitive market environment meant rate adjustments in many cases did not bring pricing to adequate technical levels. Some larger insurers managed to put through rate increases earlier than smaller players. Some of those smaller insurers are now struggling to find ways of increasing rates to an appropriate level without losing market share.

The situation is also aggravated as insurers tend to entice new customers with entry-level tariffs that are lower than those offered to existing customers.

Claims inflation pressure might challenge some insurance companies' reserving adequacy, which is likely to result in reserve strengthening in the future and would weigh further on reported underwriting profitability. Traditionally, the vast majority of policyholders would renew their motor policies at the beginning of the contract year, which resulted in little ability to price-in developing claims inflation trends. However, there has been a trend in the market towards policies that allow re-pricing during the year, given certain conditions.

Rising claims expenditure also posed a challenge for the personal property segment– the second largest non-life segment.

Premium adjustments in this segment are predominantly based on a claims indexation mechanism, which is backwards looking by design. Over the next 12-15 months, AM Best expects a more balanced technical result in the personal property segment.

Robust profitability and price discipline of liability lines and household content insurance, representing around a third of Germany's total non-life market premiums, has helped to underpin overall profitability of the German non-life segment in the past. AM Best expects that this dynamic will continue to help smooth overall segment results going forward and offset the current pressures stemming from the motor and property segment.

Overall, the industrial and large commercial property market in Germany is at a more advanced stage of the cycle and was already entering a hardening phase before the impact of claims inflation rises that impacted most other segments. As a result, the segment has managed to achieve adequate rates to support profitability.

AM Best believes that the hard market cycle in that sub-segment is likely to remain generally robust over the next 12 months, supporting technical underwriting profitability.

Natural Catastrophe Losses Led to Higher Volatility Due to a Change in Reinsurance Structures

The German property market is subject to volatility in its results due to its exposure to potentially large weather losses that can significantly add to the segment's claims burden.

Natural catastrophe events have caused earnings volatility in the past as the product risk in the property segment is dominated by severe weather events. However, the impact of natural catastrophe events on the market's capitalisation has proven to be low historically.

That said, the recent and severe occurrences of flood events in Germany have sparked a renewed discussion about the introduction of a state-backed system to provide comprehensive natural hazard insurance protection. These events have brought to light a significant insurance gap among households exposed to specific natural hazards, including flooding.

AM Best believes that most German non-life insurers are well-positioned to manage the financial impact of weather-related catastrophes, as most carriers benefit from adequate access to reinsurance capacity and comprehensive aggregate reinsurance covers. However, the cost of reinsuring natural catastrophe events has risen sharply because of general hardening conditions in the reinsurance market. As a result, insurance companies ended up buying reinsurance at higher attachment points, which is likely to result in greater earnings volatility.

AM Best believes that the current solvency levels of German insurers provide a buffer to absorb some degree of volatility, which could arise from financial market volatility or loss experience.

Although AM Best expects that insurers will retain overall strong balance sheets, the Negative outlook on the German non-life segment reflects the difficulties associated with the rapid rise in claims inflation, the economic and political uncertainty, all putting pressure on both top and bottom-line results over the next year. However, AM Best could revise the outlook to Stable if inflationary pressures ease and the market moves to re-price risks ahead of the inflationary impacts on technical profitability.

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	
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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.

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BEST'S MARKET SEGMENT REPORT

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