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Market Segment Outlook: Italy Non-Life Insurance

While further claims inflation and intense competition are anticipated to remain challenges for Italian non-life insurers, AM Best expects the segment to continue to exhibit solid profitability in 2025.

AM Best is maintaining its Stable outlook on Italy's non-life insurance segment, owing to the following factors:

- Natural catastrophe risks gaining relevance due to compulsory coverage for enterprises.
- Profitability expected to be maintained despite recent updates of bodily injury compensation tables.
- Stable growth sustained by underwriting discipline.

Natural Catastrophe Risks Gaining Relevance due to Compulsory Coverage for Enterprises

Laws requiring corporate entities to buy coverage against earthquakes, floods, inundations and landslides came into force for large enterprises on March 31, 2025. Medium and small enterprises will come under the measures later in 2025.

The new rules impose on insurers the duty to underwrite cover for these exposures although with provisions to stay within their risk appetite and access reinsurance support from government-owned reinsurer, SACE S.p.A. The total reinsurance capacity for these risks is set at EUR 5 billion per year until 2026 and is guaranteed by the state.

Once fully effective, this new natural catastrophe scheme is expected to drive a low-single-digit percentage increase in gross written premium (GWP) within the non-life Italian segment.

The law will increase coverage for risks historically poorly penetrated, benefitting risk diversification. However, it will also bring with it a spike in exposure to natural catastrophe risks. Given the track record of natural catastrophe losses in Italy, the appropriateness of reinsurance protection will play a vital role in limiting volatility in insurers' underwriting results.

AM Best anticipates that insurers will need to complement the quota share offered by SACE with other reinsurance protection, exposing them to fluctuations in price and availability of capacity.

Profitability Expected to be Maintained Despite Recent Updates of Bodily Injury Compensation Tables

In recent years, Italian non-life insurers have been able to counterbalance economic inflation by applying appropriate rate increases. However, insurers now face new challenges stemming from recent regulatory updates regarding bodily injury compensation and non-pecuniary damage. This impacts primarily the motor line of business and, to a lesser extent, general liability and medical malpractice.

A major update of the commonly used Milan tables took place in 2024, when a number of parameters were updated, including adjustments to interest rates, life expectancy, and inflation assumptions.

Analytical Contacts:
Andrea Porta, Amsterdam
Tel: +31 20 808 1700
andrea.porta@ambest.com

Jose Berenguer, Amsterdam
Tel: +31 20 808 2276
jose.berenguer@ambest.com

Angela Yeo, Amsterdam
Tel: +31 20 808 1712
angela.yeo@ambest.com

Editorial Managers:
Richard Banks, London
Tel: +44 20 7397 0322
richard.banks@ambest.com

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

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Economic Overview

According to International Monetary Fund (IMF) April 2025 projections, Italy's gross domestic product (GDP) is expected to fall slightly to 0.4% in 2025 from 0.7% in 2024.

While Italy is expected to see lower-than-1% growth until at least 2026, this growth is well above the average 0.2% the decade prior to the pandemic.

Economic activity has been driven by domestic demand, government spending, and investment. The Italian government's Superbonus programme, tax credits provided as an incentive for residential renovations, and the EU's Next Generation investment spending programme have all contributed to higher growth.

However, Italy faces several headwinds in both the short term (geopolitical tensions and global trade policy) and the longer term (unfavourable demographics, low productivity, high government debt and a burdensome operating environment) that have the potential to slow economic growth.

For the European Union, the IMF is predicting inflation will decrease to 2.4% in 2025 from 2.6% in 2024. A benign inflation environment in the EU will likely allow the European Central Bank (ECB) to continue to gradually ease monetary policy through 2025. The bank cut its policy rate by 25 basis points in April 2025 to bring the current rate to 2.25%.

These changes resulted in an average increase in compensation amounts between 15% and 20%. Additionally, in 2025 the legal framework underwent a fundamental revision with the introduction of a new unified table, "Tabella Unica Nazionale" which standardised parameters and criteria to determine bodily injury compensation across regions.

These regulatory framework updates are expected to continue to drive up claims costs, posing a challenge to non-life insurers in 2025. Nevertheless, AM Best believes that the segment will be able to put in place additional rate increases to mitigate these impacts and maintain its profitability.

Stable Growth Sustained by Underwriting Discipline

AM Best expects non-life insurance gross written premium (GWP) to grow at a steady pace during 2025 across all lines of business, driven by moderate price increases as well as additional business volume due to the mandatory natural catastrophe coverage coming into effect.

The Italian non-life segment evidences a high level of concentration by players, with the three largest groups accounting for roughly half of the market in terms of GWP.

In terms of lines of business, motor continues to dominate the segment, accounting for approximately 40% of total GWP, whereas non-motor lines of business are fairly diversified, mainly health, fire & property, and liability.

While further claims inflation and intense competition are anticipated to remain challenges for Italian non-life insurers, AM Best expects the segment to continue to exhibit solid profitability in 2025. The Italian non-life insurance market proved to be flexible in absorbing price increases put in place by insurers to offset claims inflation, mainly in the motor line of business.

Over the past two years motor third-party liability, historically the most competitive line of business, faced material increases in both spare parts cost and bodily injury compensation which put pressure on combined ratios. However, claims inflation was successfully offset by an average rate adjustment of 5.6% in 2024 - the second consecutive year of rate increases after a decade of receding rates. These adjustments enabled insurers to maintain - or even enhance - 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	
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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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

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 **James Gillard**
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EXECUTIVE VICE PRESIDENT & CIO **James F. Snee**
SENIOR MANAGING DIRECTOR & CHIEF RATING OFFICER **Kenneth Johnson**
SENIOR MANAGING DIRECTOR **Edward H. Easop**

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, Alcadía 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

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