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European Insurance in 2026: When higher-for-longer interest rates become the norm

The European insurance sector continues to benefit from higher-for-longer interest rates, despite a weaker macro backdrop. In response to the Middle East conflict, the European Central Bank (ECB) began raising interest rates this summer, reinforcing an environment in which higher reinvestment yields strengthen investment income and support insurer profitability. We see non-life premium growth slowing to 1.5% in real terms (net of inflation) in 2026, down from 2.9% in 2025, as pricing softens. Renewed temporary inflationary pressures from the Middle East conflict affect mainly claims severity, but stronger investment income should partially offset weaker underwriting results, supporting profitability. Life is comparatively better positioned, with savings, annuities and pension risk transfer (PRT) business benefiting from higher bond yields, while pension reforms and the ongoing shift towards capital-light products remain structural growth drivers. Real life premium growth is forecast to moderate to 1.5% in 2026 after several strong years but remains above its long-term trend. Across both insurance segments, the advanced European markets remain resilient and well-capitalised, with higher yields supporting investment income and profitability despite softer underwriting conditions and weaker economic activity.

Advanced Europe macroeconomic outlook 2026/27: inflationary pressures outweigh growth headwinds

We expect the energy supply shock to keep euro area inflation above 3% throughout H2-2026, exerting upward pressure on insurance claims inflation. Insurance-relevant price indices like construction costs, motor vehicle repair and replacement parts are expected to rise even faster than headline inflation, pressuring claims costs and underwriting margins. However, we do not expect a re-run of the 2022-2023 inflationary experience: softer labour markets and weaker household demand, together with less expansionary fiscal and monetary policy, should limit second-round effects through wage growth.

In response to the energy shock, the ECB hiked its deposit rate in June to 2.25%. Risks are now skewed to another precautionary hike. This represents a key change to our pre-Middle East conflict outlook, when we expected the ECB to stay on hold through 2026, reinforcing the higher-for-longer interest rates environment. The Bank of England is not expected to hike this year, with a loose labour market limiting second-round inflation effects. Still, we see it holding the Bank rate at restrictive levels, against a pre-Middle East conflict forecast of two cuts for this year. For insurers across both segments, the higher-for-longer interest rate environment provides a positive earnings tailwind as higher reinvestment yields support investment income and profitability even as economic growth weakens and inflation rises.

In 2026, we forecast euro area ex-Ireland real GDP growth to weaken to 0.7%, mainly as private consumption slows. Germany and Italy are more exposed to the energy shock through higher gas dependence and energy-intensive manufacturing, while France is better insulated by domestic nuclear supply, though with more limited fiscal space. In 2027, we expect euro area growth to rebound to 1.3% assuming the Middle East conflict does not induce more long-lasting energy supply disruptions. That said, the euro area economy will continue to underperform the US and advanced-APAC growth-wise given persistent structural headwinds. In the UK, we expect GDP to expand by 0.9% in 2026, constrained by weak household real income growth, fiscal consolidation and elevated borrowing costs.

Non-life insurance outlook

The advanced European non-life market is softening after several years of strong pricing-driven momentum. We forecast non-life real premium growth to slow to 1.5% in 2026, down from 2.9% in 2025, before moderating further to 1.1% in 2027 (2015-2024 CAGR of 1.7%). Property and motor lines should see the sharpest moderation in premium growth, with property slowing to 0.3% and motor moderating to 1.3% in 2026 before contracting in 2027. This slowdown reflects broad-based price softening across commercial and personal lines as competition intensifies, putting pressure on underwriting margins. Although recurring inflationary shocks are expected to weigh on underwriting margins, overall profitability should remain strong in the near term, supported by higher investment income. We forecast aggregate return on equity (ROE) to ease only modestly from 12.8% in 2025 to 12.0% in 2026 before normalising to 10.0% in 2027, remaining well above the long-term average.

The economic implications of the Middle East conflict are likely to affect European non-life insurers mainly through higher claims severity rather than changes in claims frequency or premium growth. Direct losses remain concentrated in war and terrorism specialty lines, which represent only a small share of the market outside the London Market. Higher energy, commodity and shipping costs may feed through to construction, motor repair and replacement costs, increasing claims severity. Tighter financial conditions and supply chain disruptions may also increase claims pressure in trade credit and liability, although they could also support demand for trade credit cover as economic uncertainty rises. These effects are greater in Europe than in Asia or the Americas, particularly in Germany, given higher energy-import dependence and a stronger pass-through of costs into insurance-relevant prices. Overall, we expect the drag on premium growth to remain limited, as GDP growth should hold up.

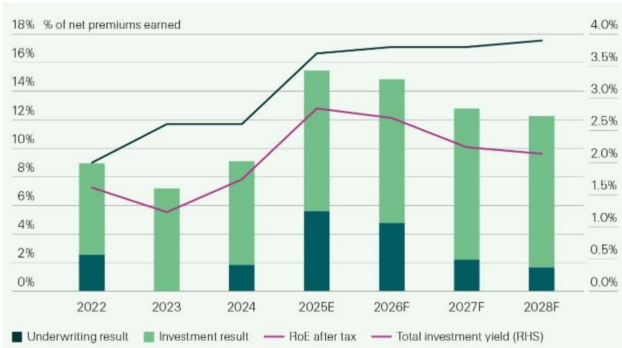
Property and motor insurance are expected to experience the greatest competitive pressures. We forecast real property premium growth to slow to 0.3% in 2026 from 2.5% in 2025, as weaker commercial and personal pricing outweigh higher demand for natural catastrophe (natcat) protection, elevated construction cost inflation and the expansion of public-private catastrophe schemes. In Italy, property growth has benefited from the 2025 Natcat reform mandating coverage for all corporates, though this tailwind is expected to fade over 2026-27 as pricing also softens. Real motor premium growth is expected to moderate to 1.3% in 2026, from 3.3% in 2025 and contract by 0.9% in 2027 as pricing softens. The UK is a noticeable exception: personal motor pricing is already showing signs of re-acceleration following an earlier and deeper profitability correction.

Liability insurance is expected to remain relatively resilient, supported by firmer pricing. Over the medium term, we expect liability excess inflation to become increasingly prominent in Europe, as evolving legal frameworks and the rise of collective redress in varying degrees put upward pressure on claim costs, supporting selective repricing and firmer premium growth.[1] Private health insurance in advanced Europe is expected to remain a strong growth segment, with real premium growth forecast at 3.2% in 2026 and 2.3% in 2027 (2015-2024 CAGR of 1.3%), driven by ageing populations, higher healthcare utilisation and continued growth in private-cover penetration.

Profitability is expected to remain robust in 2026, although the underwriting cycle has likely passed its peak. Aggregate return on equity (ROE) across France, Germany, Italy and the UK reached around 12.8% in 2025 and is forecast to ease slightly to 12% in 2026 before normalising to 10% in 2027, still well above the long-term trend (2015-2024: 7.1%). Investment income continues to support earnings, as short and long-term interest rates remain higher. We expect underwriting margins to remain strong in 2026 in Europe and come under increasing pressure in 2027 as pricing softens and inflationary cost pressures feed through to claims.

Figure 1:
Global and Advanced Europe real non-life premiums growth (left) and non-life profitability metrics for Europe's largest markets (right)

Source: Swiss Re Institute



Note: The profitability metrics cover the UK, France, Italy and Germany Underwriting and investment results in % of net premiums earned, RoE in % of shareholders 'equity and total investment yield in % of investments.

Life insurance outlook

The outlook for advanced European life insurance stays positive in 2026-27, slightly outperforming other advanced insurance markets, although growth varies across countries (see Fig. 2). After 2.4% growth in 2025, we forecast real premium growth to moderate to 1.5% in 2026 before recovering to 1.7% in 2027 while remaining above trend (2015-2024 CAGR of 0.4%). Growth will continue to be supported by higher yields and sustained demand for savings products, annuities and pension risk transfer (PRT) business, while pension reforms and the shift towards capital-light products remain structural growth drivers. Profitability is expected to remain resilient, with return on investment (ROI) for France, Germany, Italy and the UK reaching 3.6% in 2026 and 3.7% in 2027 (2025: 3.4%). Higher-for-longer interest rates continue to support investment income, although the benefit is gradually diminishing as portfolio yields catch up with market rates. At the same time, operating margins are coming under greater pressure from stronger competition, new taxes and tighter margins in PRT business.

Country-specific pension reforms and retirement solutions are creating important structural growth opportunities across European life insurance. Germany's government-subsidised private pension reform Riester 2.0 [2] (effective 2027), is expected to accelerate the shift to capital-light products within the private pension segment, while also increasing switching and lapse risks for insurers. In the UK, we expect real premium growth to recover gradually over 2026/27, supported primarily by strong pension risk transfer (PRT) activity and robust individual annuity demand. In the Netherlands, the transition from defined benefit to defined contribution (DB-to-DC) pension schemes is expected to create a meaningful medium-term opportunity, as pension funds outsource legacy liabilities and retirement solutions to life insurers.[3] Together, these developments reinforce the broader trend across Western Europe, where premium growth is increasingly driven by capital-light savings products, reflecting the ongoing shift towards unit- and index-linked policies and greater individual responsibility for retirement savings. In France, Germany and Italy, hybrid and unit-linked (UL) products are expected to remain the main growth drivers in

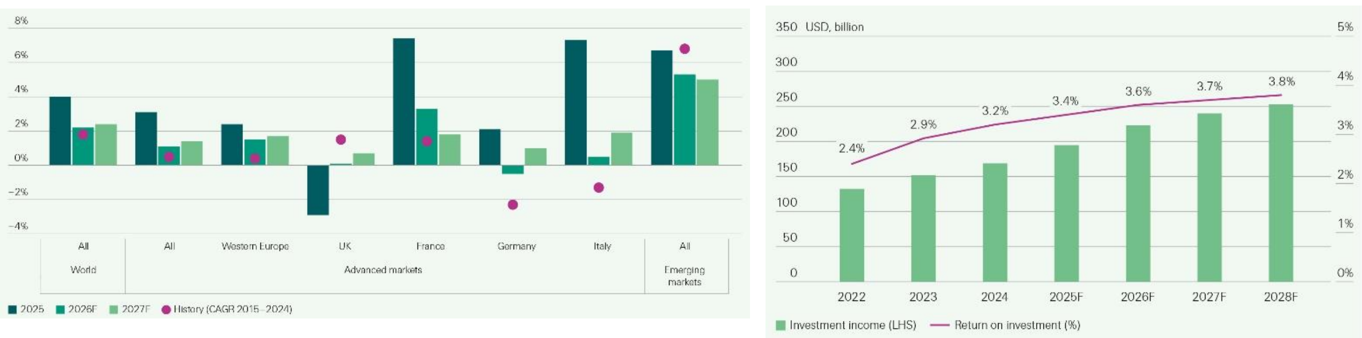
2026-27, although momentum is moderating after several years of strong premium inflows. Across these markets savings business continues to account for the majority of premiums (>80%). The economic consequences of the Middle East conflict are expected to affect life insurers primarily through financial markets and household income rather than insurance claims. However, a renewed escalation of the conflict could weaken economic growth and keep inflation elevated, eroding real incomes of lower and middle-income households. This would weigh on demand for protection and credit-life covers, and pressure group business. Sharp movements in interest rates could also impact asset and liability valuations, while increased market volatility could pressure fee-based income from unit-linked business.

Life protection premium growth across advanced Europe markets remains resilient, albeit easing from 2.7% in 2025 to 1.9% in 2026 in real terms. The growth is supported by resilient labour markets, mortgage activity and rising demand for health, disability and long-term care (LTC) products. In the UK, life protection benefits from inheritance-tax (IHT) reform, re-mortgaging activity and improved advice, although affordability pressures drive more tailored product selection. In Germany, France and Italy, demographic ageing increasingly supports LTC demand while weighing on traditional mortality business.

Higher reinvestment yields continue to support profitability across advanced European markets through through rising investment income and resilient savings inflows. In the UK, annuity business continues to generate new contractual service margin (CSM), while insurers facing margin pressure from rising competition and tighter spreads appear to be responding through structured gilt-yield pricing strategies in the bulk annuity market, cost-efficiency measures and longevity releases. In continental Europe, stable unit-linked fee income in France, expected future Zinszusatzreserve (ZZR) releases in Germany and easing lapse dynamics in Italy support earnings. Capitalisation remains strong, with the average solvency ratio reaching 224%[4] as of April 2026 and should benefit further from the implementation of the Solvency II revisions from 2027.

The risk landscape is asymmetric. In Germany, Riester 2.0 reform could increase lapse risk within legacy Riester portfolios as the transfer option could encourage policyholders to switch away from high-cost and low-transparency providers towards those with more attractive low-cost investments, strong distribution networks, innovative products and asset-management capabilities.[5] Overall higher nominal yields support reinvestment income, but also bring valuation, lapse and asset-allocation risks.

Figure 2:
Global and Advanced Europe traditional life real premium growth (left) and life insurance investment profitability for Europe's largest markets (right)



Source: Swiss Re Institute

Note: Investment profitability metrics cover the UK, France, Italy and Germany. Return on investment computed as weighted average across countries with USD-denominated investment assets as weights.

The view ahead

Europe's insurance market should remain profitable in 2026–27, but the sources of resilience are becoming more uneven. Higher-for-longer interest rates will continue to support investment income across both life and non-life, helping offset weaker growth, softer pricing and renewed claims inflation. In non-life, underwriting discipline will be most important in property and motor, where price softening is weighing on premium growth, while NatCat demand, infrastructure investment, liability repricing and private health should provide selective growth opportunities. In life, higher yields continue to support savings, annuities and pension risk transfer business, while pension reforms and the shift to capital-light products remain structural growth drivers. The main risks are renewed conflict escalation, persistent claims inflation, market volatility, lapse and valuation risk, and localised sovereign stress.

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