This IQ (Insurance Quarterly) edition publication has been slightly delayed to account for the market developments around April 2, 2025, "Liberation Day" (updated market forecasts are available in the appendix). During the past quarter, NatCat (Natural Catastrophe) renewal rates surprised to the downside and EIOPA proposed an EU-wide public-private insurance scheme to make the market more efficient. German, Swiss and Italian insurance M&A activity was in focus and, in an unusual twist of events, Bunds and BTPs have both become attractive, with "A" European IG Corporates one of our favourite overweights.

Below is DWS' selection of the top themes to consider this quarter:

Upcoming insurance events and key dates

- **MAGA reforms ("Make Asset-backed Great Again"):** On March 19, 2025, the European Commission (EC) released it Savings and Investments Union strategy. This is particularly interesting for insurers interested in asset-backed finance, as in Q2 the European Commission will make proposals focused on adjusting the currently very penalizing prudential capital requirements, as well as on simplifying due diligence and transparency requirements.
- **LTEI and Delegated Acts**. By 2025 year-end, the European Commission will specify the long-awaited eligibility criteria for the prudential capital treatment of long-term equity investments (LTEI) under Solvency 2.
- **Asset Intensive Reinsurance.** The International Association of Insurance Supervisors (IAIS) is consulting on structural shifts in the Life sector. The focus is on the insurance sector's increasing allocation to alternative assets and the rising adoption of cross border asset-intensive reinsurance (AIR). According to IAIS, these trends could potentially pose potential

financial stability risks due to forced liquidation of assets during stress and financial market disruption from recapture risk.

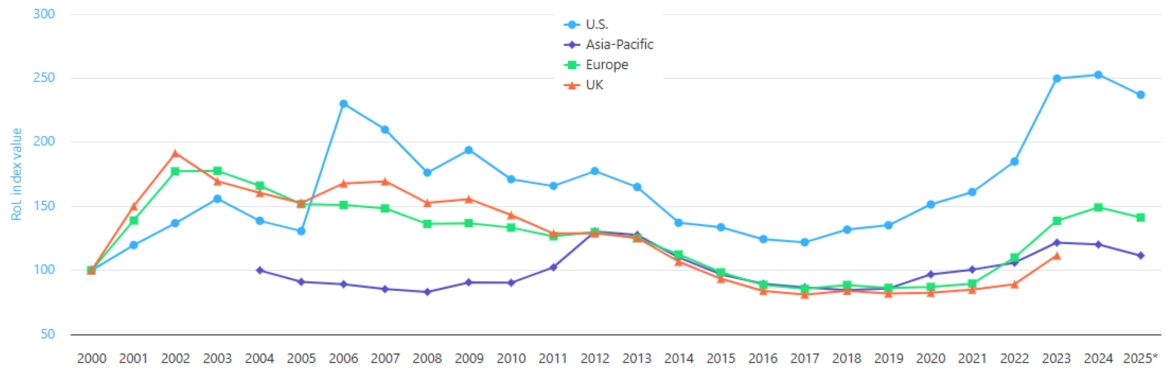
Insurance market and product trends

This quarter we focus on the NatCat insurance market, to highlight how underwriting rates are moving, and discuss a recent proposal by EIOPA to broaden the market and make it more efficient, possibly resulting in 40%-lower aggregate NatCat SCRs.

Underwriting trends:

The new year started with an unexpected inflection in the **Natural Catastrophe insurance market**. Guy Carpenter reported that Continental European rates decreased by 5.3% in January, after a rising market that went on uninterrupted since 2017. The shift appears to be due to excess supply, with increasing appetite from traditional reinsurance and alternative capital providers. While rates have now fallen around the globe, rates remain at historically high levels, and about 65% above the level at which they bottomed out eight years ago.

Regional Property Catastrophe Rate-On-Line Index

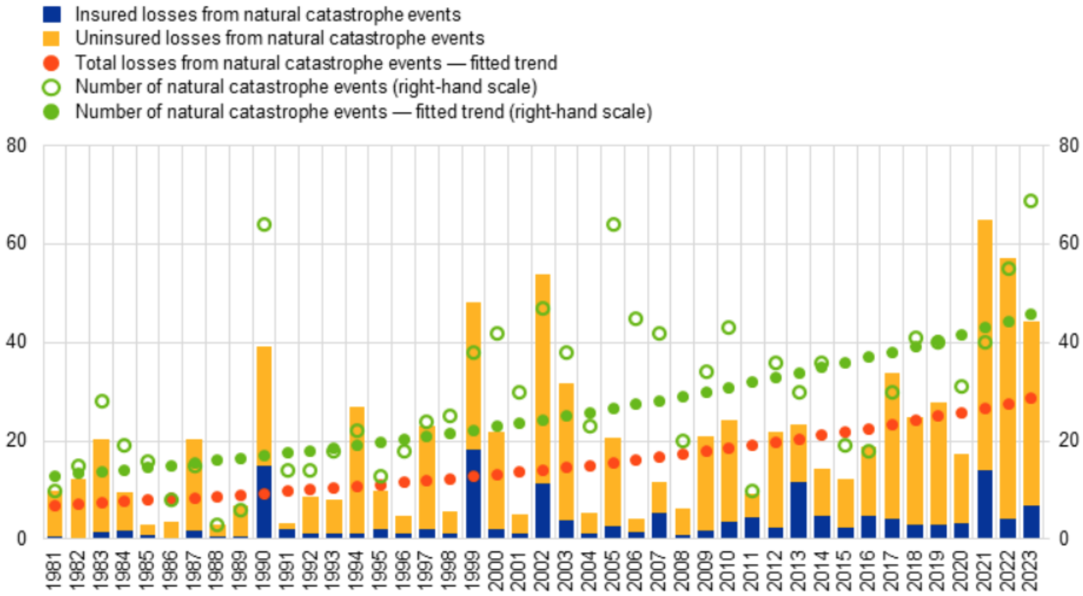


Source: Guy Carpenter, Artemis as of January 2025, *preliminary data.
Notes: "'Rate-On-Line' (ROL)" refers to the rate of reinsurance premium to loss recoverable under a reinsurance contract. The ROL signals how much money an insurer must pay for reinsurance coverage. A higher ROL means that the insurer must pay more for coverage, while a lower ROL means that the insurer pays less for that same level of coverage.

While there may be various factors affecting reinsurance prices, the increasing frequency and severity of events (see chart below from EIOPA) we think are likely to trigger further repricing of reinsurance contracts in the future, which can in turn increase prices offered by primary insurers. Yet, according to EIOPA, affordability and budgetary constraints are the main reason why 19% of European consumers do not buy or renew insurance.

Economic losses from and number of natural catastrophes in the EU

(1981-2023; EUR billions as measured in 2023 values, number of events)



Sources: CATDAT (Risklayer GmbH – Europe Climate related impact Analysis Project), EIOPA's Dashboard on insurance protection gap for natural catastrophes – European Union (europa.eu) and EM-DAT. Notes: The two fitted trends depict exponential trends fitted to the annual time series of the number of and the total losses (insured and uninsured) from natural catastrophe events. (Initially, two types of linear regressions were fitted, one for the original data and one for logs of the original data: since better fits – as measured by R-squared – were obtained for the logs of the original data, the estimated coefficients from these regressions were used to depict the exponential trends). The trend fitted to total losses remains upward-sloping when total losses are scaled by GDP. Natural catastrophes include both geological catastrophe events (e.g. earthquakes, volcanic eruptions) and climate-related catastrophe events (droughts, extreme temperatures, floods, mass movements, storms and wildfires). The frequency of geological catastrophe events (as opposed to that of all natural catastrophe events or climate-related catastrophe events) is not upward-trending.

Product design innovations

The chain of causation described in the previous paragraph has the potential to limit the NatCat insurance market penetration (currently sitting at a weighted average of less than 20% for Continental Europe, with lows of less than 10% for low-income consumers) and prompted the European insurance regulator to consider innovative product designs that would make the NatCat market broader and more efficient.

In a joint paper published in December 2024, the ECB and EIOPA propose a possible EU-level solution composed of two complementary pillars:

- **An EU public-private reinsurance scheme** to increase the insurance coverage for NatCat risk. By pooling private risks and perils across the EU, this scheme would exploit economies of scale and diversify the coverage of high risks at the European level. It would be funded by risk-based premiums from (re)insurers or national insurance schemes.
- **An EU fund for public disaster financing** to reinforce public disaster risk management in Member States. Financed by contributions from Member States, this fund would help rebuild public infrastructure following natural disasters, subject to Member States having implemented agreed risk mitigation measures prior to the event to minimise moral hazard.

Illustrative EU NatCat Insurance scheme proposal

Pillar 1: EU reinsurance scheme		Pillar 2: EU disaster fund
Increase insurance coverage and supply	Goal	Incentivise risk mitigation and limit public outlays
(Re)insurers and national schemes	Participants	Governments
Public-private	Set-up	Public
Voluntary	Membership	Mandatory
Risk-based premia from participants (and capital market funding incl. cat bonds)	Funding	Risk-adjusted contributions from governments (and possibly debt issuance)
Payout according to contract conditions	Payouts	Payout calibrated to event and dependent on implementation of national plans

Sources: EIOPA, as of December 2024

Using the Moody's RMS Europe NatCat Climate HD model, and using flood risk as a case study, **EIOPA estimated that pooling risks at the EU level (as opposed to leaving national governments to deal with NatCat risks) could result in a reduction of the relevant underwriting SCR (expressed as a 1-in-200-year return period losses - RPL), by as much as 40%.**

A similar analysis conducted by the World Bank, providing a framework for estimating the impact of pooling risks on policyholder premiums, supports similar conclusions and concludes that **the premium for policy holders could be reduced by around 26%.** This estimation is based on a simplified calculation, taking into account annual expected losses and the cost of capital for reinsurance (using the 1-in-200-year return period losses).

EIOPA highlights additional positive externalities of this NatCat scheme, such as a faster recovery following a disaster, less burden on fiscal budgets and reduced costs through better risk management.

Having said this, it is fair to recognize that individual insurers and consumers do not typically take these broader economic benefits of insurance into account. Furthermore, a moral hazard issue could exist in that individuals often expect governments to ultimately cover natural catastrophe losses.

Bearing in mind these important limitations, the EIOPA new product design appears to be going in the right direction and could become an essential tool in making sure private and public bodies partner up to face a new world characterized by heightened climate risks, and higher expected losses.

Insurance M&A activity: “movers and shakers” in the past quarter

Banco BPM is set to increase (via its life insurance subsidiary) its stake in Italian fund group Anima to almost 90% following a voluntary tender offer. The offer was accepted by shareholders in Anima representing 67.98% of the firm's share capital, Banco BPM, already holds 21.97%. The bank will pay the consideration of EUR 7 for each share tendered for almost EUR 1.55bn, after which it will own approx. 90% of Anima's share capital. During the quarter, the ECB had rejected a request from BancoBPM to treat the Anima acquisition under the so-called “Danish Compromise” framework. The ECB argued that the acquisition, while carried out via an insurance company, targeted an asset manager, and, as a result, was not eligible for the more favourable capital treatment.

Swiss insurers Helvetia and Baloise consider merger. Swiss insurer Helvetia and Baloise are exploring a potential merger in a move that could see the tie up create an asset manager with combined assets of approximately EUR 125bn according to Bloomberg. The transaction could trigger industry consolidation in Switzerland’s insurance landscape which may prompt action from other possible first such as larger rival Zurich, according to Ignites Europe.

German insurers create BarmeniaGothaer asset management firm. German insurers Gothaer and Barmenia have merged to create BarmeniaGothaer Asset Management, with a combine total AuM of approx. €50bn, making it one of the 10 largest insurer-owned asset managers in Germany. The new firm will invest around 30% of assets in government and “government-related” bonds, and over 14% in corporate bonds, among other asset classes. It holds €3bn invested in renewable energies. GothaerVersicherungsbank VVaG and Barmenia Versicherungen a.G. hold 64% and 36%, respectively, of Barmenia.Gothaer Finanzholding, responsible for the financial management of the new entity. The merger represented the first combination of two large independent insurers in Germany in over 20 years according to IPE.

Unicredit examines options to Amundi distribution deal. UniCredit is to examine options to its distribution deal with Amundi, after planned negotiations with Crédit Agricole over a potential extension of the deal have failed to make progress. The 10-year distribution deal stems from Amundi’s 2016’s acquisition of Italian asset manager Pioneer Investments from UniCredit and is understood to have offered Crédit Agricole the option of extending the distribution deal for another 10 years and broadening its geographic scope.

Source: Bloomberg

Market Pulse: investment strategies and trading ideas

Q1 was characterized by relatively calm waters, followed by the tariff-induced volatility storm in early April, which opened the door to sudden shifts in valuations in the rates, credit and FX markets. Overall, we see interesting opportunities emerging in the German long-duration Government space, peripheral Government spreads (an uncommon combination that is not-so-market consensus at the time we write this piece) and remain more cautious on 10-Year U.S. Treasuries. In the investment-grade space we prefer “A” corporates over “BBB” names and have turned more positive on Euro IG (vs. US IG) on the back of more favourable relative valuations.

- **Long German 30y Bunds (vs 10y)**: on the back of the historical shift in German debt policy, we started to see steeper Bund curves, with the differential between 10- and 30-year tenors back to pre-Ukraine war levels. This trend is forecast to continue and, once priced-in, could provide interesting opportunities for Life insurers to add duration, and possibly fill their ALM gaps in this part of the curve.

- **Overweight German 10y Bunds vs US 10y Treasuries under a buy-and-maintain strategy**. On an FX-hedged basis, German 10-year Bunds yield 2.5%, vs 2.2% for their “AAA” counterparts on the other side of the pond (as of mid-April 2025). This was due to two developments that took place year-to-date: 1) hedging costs (on a 3-month forward rolling basis) for European investors into USD assets have increase dramatically (from 1.6% to 2.2%); 2) at the same time, the spread between 10yr German Bunds and 10yr US Treasuries has tightened by “only” c.40bps, resulting in a spread of 2.15% (vs 2.6% at the start of the year). Putting everything together, this translates into potentially more favourable relative value terms for German Bunds vs US Treasuries.

- **Overweight periphery spreads**: with the assumption that Europe is able to come up stronger from the current geopolitical situation, we see further potential for tightening in Italy, Spain, France, etc. An increased common debt program could also compress spreads.

- **Overweight “A” vs “BBB” Euro IG corporates**. In Euro IG, decompression between higher and lower quality paper appears to have just started. Given the still relatively high absolute yields, it would potentially make sense for investors to increase allocation into single A paper at the expense of BBBs.

- **Overweight Euro Investment Grade (vs US Investment Grade)**. Due to the sell-off in the Spring, USD IG is now trading at the same level as EUR IG (on a government-spread basis). This has not been the case for the past three years (since the start of the Ukraine war). Another signal in our view that fixed income investors might be interested to invest back in Europe.

If you are interested in any of the topics and would like to learn more, please reach out to me or your DWS relationship management partner.

Paolo Gazzola | Milan | paolo.gazzola@dws.com

Appendix: DWS Market Outlook

Fixed Income

Rates	1 to 3 months	through Dec 2025
U.S. Treasuries (2-year)	🟢	🟢
U.S. Treasuries (10-year)	🟢	🟢
U.S. Treasuries (30-year)	🟡	🟢
German Bunds (2-year)	🟡	🟡
German Bunds (10-year)	🟡	🟢
German Bunds (30-year)	🟡	🟢
UK Gilts (10-year)	🟢	🟢
Japanese government bonds (2-year)	🟡	🟡
Japanese government bonds (10-year)	🟡	🟡

Spreads	1 to 3 months	through Dec 2025
Italy (10-year)[1]	🟢	🟢
U.S. investment grade	🟡	🟢
U.S. high yield	🟡	🟢
Euro investment grade[1]	🟡	🟢
Euro high yield[1]	🔴	🟢
Asia credit	🟡	🟢
Emerging-market sovereigns	🟡	🟢

Securitized / specialties	1 to 3 months	through Dec 2025
Covered bonds[1]	🟡	🟢
U.S. municipal bonds	🟡	🟢
U.S. mortgage-backed securities	🟡	🟢

Currencies	1 to 3 months	through Dec 2025
EUR vs. USD	🟢	🔴
USD vs. JPY	🔴	🔴
EUR vs. JPY	🟡	🔴
EUR vs. GBP	🔴	🔴
GBP vs. USD	🟡	🟡
USD vs. CNY	🟡	🟢

Equities

Regions	1 to 3 months[2]	through Dec 2025
United States[3]	🟡	🟢
Europe[4]	🟡	🟡
Eurozone[5]	🟡	🟡
Germany[6]	🟡	🟡
Switzerland[7]	🟡	🟡
United Kingdom (UK)[8]	🟡	🟡
Emerging markets[9]	🟡	🟢
Asia ex Japan[10]	🟡	🟢
Japan[11]	🟡	🟢

Style	1 to 3 months
U.S. small caps[22]	🟡
European small caps[23]	🟢

Sectors	1 to 3 months[2]
Consumer staples[12]	🟡
Healthcare[13]	🟢
Communication services[14]	🟡
Utilities[15]	🟡
Consumer discretionary[16]	🟢
Energy[17]	🟡
Financials[18]	🟡
Industrials[19]	🟡
Information technology[20]	🟡
Materials[21]	🟡

Alternatives

Alternatives	1 to 3 months	through Dec 2025
Commodities[24]	🟡	🟢
Oil (brent)	🟢	🔴
Gold	🟢	🔴
Carbon		🔴
Infrastructure (listed)	🟢	🟢
Infrastructure (non-listed)		🟢
Real estate (listed)	🟡	🟢
Real estate (non-listed) APAC[25]		🟡
Real estate (non-listed) Europe[25]		🟢
Real estate (non-listed) United States[25]		🟢

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[1] Spread over German Bunds. [2] Relative to the MSCI AC World Index (only for the tactical signals),[3] S&P 500, [4] Stoxx Europe 600, [5] Euro Stoxx 50, [6] Dax, [7] Swiss Market Index, [8] FTSE 100, [9] MSCI Emerging Markets Index, [10] MSCI AC Asia ex Japan Index, [11] MSCI Japan Index, [12] MSCI AC World Consumer Staples Index, [13] MSCI AC World Health Care Index, [14] MSCI AC World Communication Services Index, [15] MSCI AC World Utilities Index, [16] MSCI AC World Consumer Discretionary Index, [17] MSCI AC World Energy Index, [18] MSCI AC World Financials Index, [19] MSCI AC World Industrials Index, [20] MSCI AC World Information Technology Index, [21] MSCI AC World Materials Index, [22] Russell 2000 Index relative to the S&P 500, [23] Stoxx Europe Small 200 relative to the Stoxx Europe 600, [24] Relative to the Bloomberg Commodity Index, [25] Long-term investments.

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