

Public consultation on Issues Paper: Structural shifts in the life insurance sector

Background session for stakeholders

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This session will be recorded

Agenda

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Background



Background

As part of its 2025-2029 Strategic Plan the IAIS has identified several Core objectives including Core objective 1.

Monitor and respond to key risks and trends in the insurance sector.

The IAIS uses its Global Monitoring Exercise to support this core objective. Since 2020, the GME has monitored some key trends which have been included in the scope of the collective discussion, among which **some structural shifts in the life insurance sector** :

- (1) increased investment allocations by insurers towards so-called “alternative assets” such as private credit, private equity and securitisations,**
- (2) increased use of cross-border asset-intensive reinsurance.**

Highlights of this work have been published in the [2021–2023 Global Insurance Market Reports \(GIMARs\)](#) and reported to the [Financial Stability Board](#).



Background

The [Issues Paper](#) provides an in-depth assessment of the key supervisory issues and practices in response to these structural shifts.

This Issues Paper will inform enhancements to the IAS supervisory and supporting material, where necessary, to ensure a globally coordinated supervisory response.

ICPs and Issues Papers

- The Insurance Core Principles (ICPs) form the globally accepted framework for insurance supervision. The ICPs seeks to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions.
- **Issues Papers** are developed to explore emerging or complex topics relevant to the insurance sector. They are intended to foster discussion and deepen understanding of specific issues that may affect insurers, supervisors, and policyholders.
- Issues Papers are not intended to set supervisory expectations or regulatory requirements. Instead, they serve as a foundation for further exploration or development of guidance, standards, or best practices.
- By helping identify and analyse new or complex topics, Issues Papers serve as a foundation for potential updates or refinements to the ICPs.

Public consultation document

Outline of the public consultation document

- Chapters
 2. Increased allocation to alternative assets in life insurers' portfolios
 3. Rising adoption of asset-intensive reinsurance (AIR) in the life insurance sector
 4. Macroprudential and financial stability considerations
 5. Review of the IAIS supervisory material
- [Feedback from stakeholders](#) are summarised in a separate document

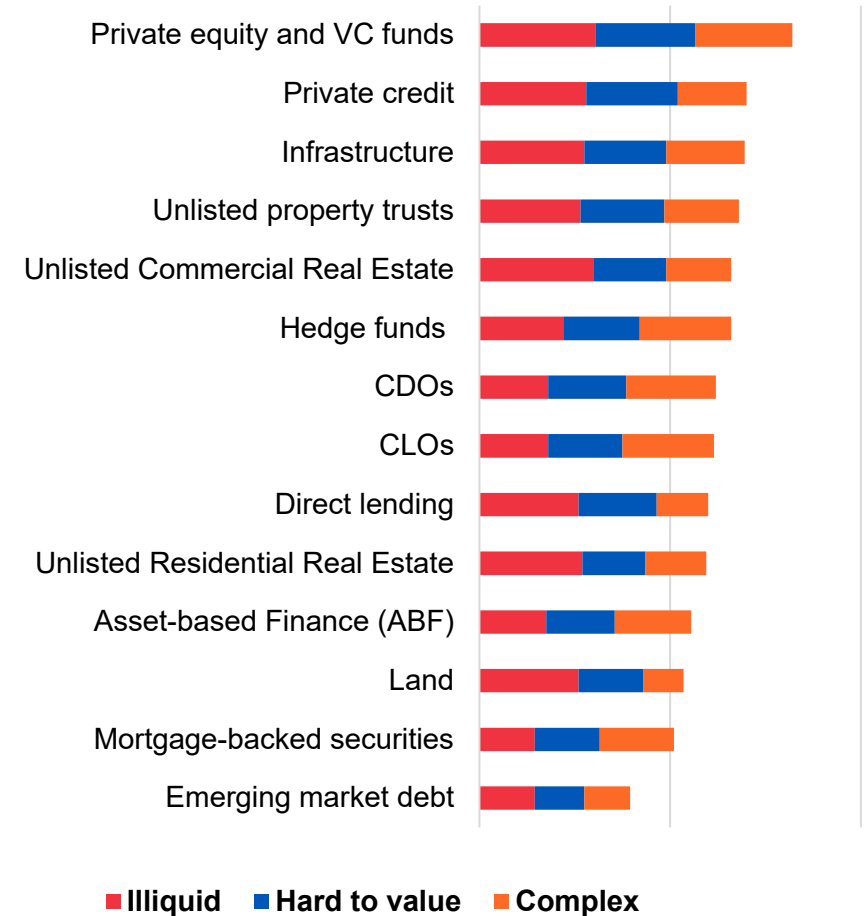
2. Increased allocation to alternative investments

- **Key drivers:** prolonged low interest rates, need for higher returns and diversification. Trend continues in higher interest rate environment.
- **Challenge:** difficult to quantify the trend due to lack of a broadly accepted alternative asset definition.

➤ **Issues paper definition:**

Alternative assets are assets which display a high degree of either valuation uncertainty, illiquidity or complexity, or a combination of these.

Ranking of alternative assets according to supervisory risk assessment



2. Increased asset allocation to alternative investments

Potential Benefits:

Enhanced portfolio diversification

Higher potential returns

Alignment with long-term liabilities

Inflation hedge

Funding real economy

Supervisory concerns:

Valuation uncertainty, illiquidity, complexity

Hidden leverage

Links to PE firms and conflicts of interest

Credit risk and ratings

Regulatory capital-related issues

Information gaps

Supervisory response:

Enhanced risk management frameworks

Improved monitoring and reporting

Regular capital adequacy reviews

Stress testing and scenario analysis

Conflicts of interest policies

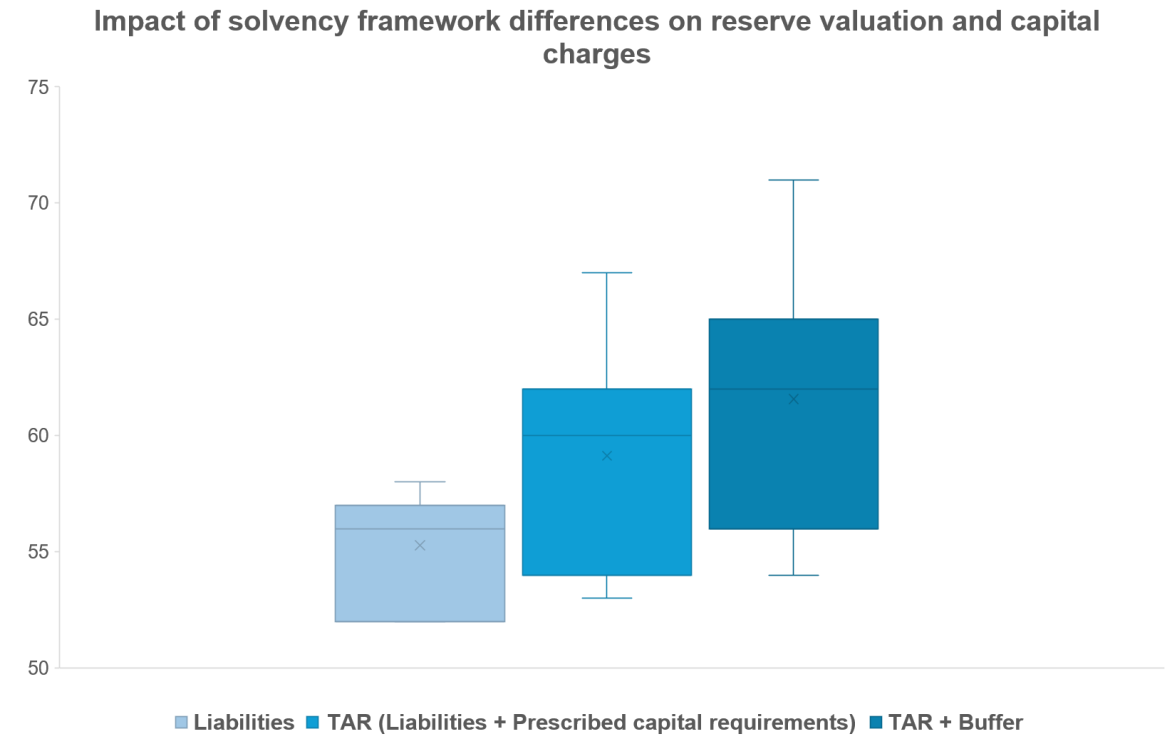
Increased international cooperation

3. Asset-intensive reinsurance (AIR)

- **Understanding AIR** (Economics of transactions, termination events, investment flexibility, recapture risk and collateral arrangements).
- **Exposure to AIR:** Varies across regions (and so do risks).
- **Key drivers:**
 - Differences in prudential frameworks (eg prescriptive versus market-based), notably in (1) **Reserving**, (2) **Capital requirements** and (3) **Investment flexibility**.
 - Ability to leverage these differences → **better pricing** for the cedent.
 - Jurisdictional differences in **capital raising**, **taxation**.
 - **Supervisory recognition mechanisms** (equivalence, reciprocity).
- **Complexity:** **Long risk intermediation chain** from policyholder to multiple offshore retrocessionaires.

3. Asset-intensive reinsurance (AIR)

- Stylised exercise to illustrate the impact of differences in solvency framework on insurers' total asset requirements.
- **Higher spread → Higher discount rate → Lower liabilities**
- But higher spread only achievable with **assets outside** the set of investable assets under the cedent's solvency framework (eg assets may not be matching-adjustment eligible).



3. Asset-intensive reinsurance (AIR)

Supervisory concerns:

- **Complexity:** Multiple jurisdictions, asset managers, investors and reinsurers involved in a transaction.
- **Concentration risks:** Large concentration of assumed risks at the jurisdictional and reinsurer level
- **Conflicts of interest:** AIR to support asset origination and investments in funds controlled by PE owner
- **Recapture risk:** Assets adequacy upon recapture (eg not MA compliant)

Supervisory response:

- Enhanced **monitoring**
- Enhanced **risk management** frameworks
- AIR **pre-approval requirements**
- **Recapture risk** planning, life insurance stress test
- Increased **international cooperation**

4. Macroprudential and financial stability implications

- Currently **limited exposure** to alternative assets and AIR in the global insurance sector → reduces the risk to financial stability. However, there is significant exposure in some regions.
- Further growth in these areas could heighten **key risks and financial stability transmission channels**:
 - **Forced liquidation of assets**
 - **Rapid pullback from lending markets**
 - **Financial market disruption from mass recapture of AIR**
- **Interconnectedness with the broader market**:
 - High **leverage** in fund structures increases defaults, magnifies losses, and can trigger fire sales, destabilising insurers and the broader financial system.
 - **Concentration** of AIR transactions in a few large insurers and jurisdictions further heightens systemic risks.
- **Risk mitigation**
 - Closing **information gaps** for better monitoring.
 - Ensure proper **risk assessment** and management.
 - Ongoing **exchanges of best practices**.

5. Review of the IAIS supervisory material

- The increased allocation of investment capital to alternative assets and the higher adoption of AIR agreements are relatively new and complex developments, often involving counterparties across multiple jurisdictions. As such, **it is important to evaluate how IAIS supervisory material addresses the risks and new trends.**
- This analysis aims to identify potential areas where IAIS supervisory and/or supporting material could be further enhanced to address the supervisory concerns arising from increased asset allocation to alternative assets and the growing use of AIR.
- This analysis leverages insights from earlier sections, previous IAIS work, and extensive feedback from external stakeholders through events like the IAIS Chief Risk Officer (CRO) and GME roundtables.
- **The overall assessment of the review is that the ICPs are designed to broadly encompass the various risks that could potentially arise from alternative assets and AIR. Additionally, while each ICP was analysed in isolation against the identified risks, given potential overlaps across the ICPs, interpreting the results of the analysis and considering any future work should take a holistic approach.**

5. Potential enhancements/refinements identified in supervisory material

- **Conclusions:** IAIS supervisory material review found that the ICPs and ComFrame address most supervisory concerns.
- However, there is potential for enhancement as follows:

Key ICPs and Potential Enhancements

ICP 3: Information Sharing and Confidentiality Requirements

- Enhance sharing of reinsurance, outsourcing, and cross-border activity information.

ICP 7: Corporate Governance

- Strengthen controls for conflicts of interest and tailor governance for related entities.

ICP 8: Risk Management and Internal Control

- Build expertise for reinsurance and investment risks.
- Improve controls for risk mitigation and compliance in cross-border activities.

ICP 9: Supervisory Review and Reporting

- Specify liquidity risk reporting and adapt reviews for complex cross-border activities.

ICP 13: Reinsurance and Other Forms of Risk Transfer

- Address recapture, collateral, and concentration risks.
- Incorporate AIR complexities into group supervision.

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ICP 14: Valuation

- Strengthen valuation controls and address reinsurance recoverable risks

ICP 15: Investments

- Set limits on investment concentration and enhance risk management for AIR.

ICP 16: Enterprise Risk Management (ERM)

- Integrate reinsurance and cross-border risks into ERM frameworks.
- Strengthen stress testing for alternative assets and AIR.

ICP 20: Public Disclosure

- Improve disclosures on alternative assets, valuation, and conflicts of interest.

ICP 24: Macroprudential Supervision

- Enhance data collection for systemic risks and address concentration risks.

ICP 25: Supervisory Cooperation and Coordination

- Improve cross-border coordination and group-wide supervision of reinsurance

Consultation process

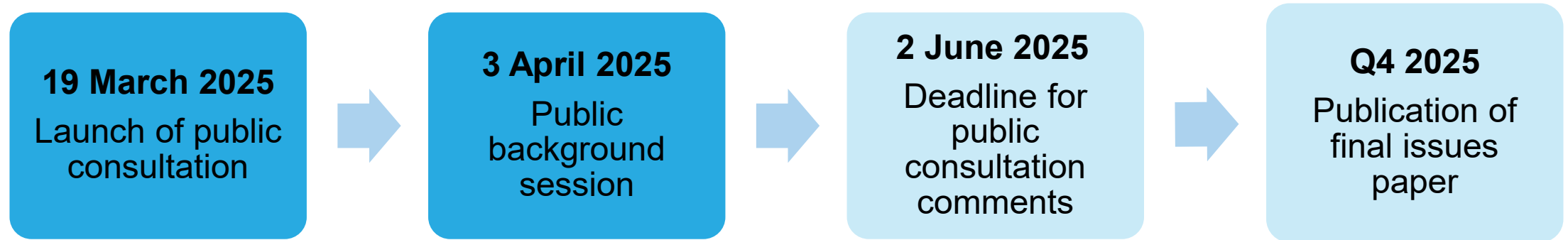
Feedback from stakeholders

- **Feedback** on the consultation document is invited by **Monday 2 June 2025**.
- 26 questions in total seeking general comments on all sections of the issues paper.
- All consultation questions are optional.
- Feedback from stakeholders are summarised in a [separate document](#).

How to provide responses

- Use the **consultation tool** available at [this link](#) to provide your responses to the consultation questions.
- Only comments submitted through the tool will be considered.
- All comments will be published on the IAIS website unless the option in the tool to keep comments confidential is chosen.
- Please note that some formatting (eg bullet points) may not be preserved when copying and pasting your comments into the consultation tool from other software such as Microsoft Word.
- You can save your draft response and finish later via the button on the top right corner. Only officially submitted responses will be considered as part of the consultation.
- Should you have any questions please contact IAIS Secretariat (videshree.rooplall@iais.org).

Timeline (next steps)





Q&A