IAIS International Association of Insurance Supervisors

PRESS RELEASE

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Insurance supervisors reach globally agreed path forward on addressing risks from structural shifts in the life insurance sector

- The IAIS has published a comprehensive supervisory analysis and agreed on a path forward to respond to potential risks arising from the increasing allocation to alternative assets and adoption of cross-border asset-intensive reinsurance (AIR) by life insurers.
- The paper highlights key supervisory focus areas related to these structural shifts and provides a framework to assist supervisors and insurers in assessing potential financial stability implications.
- A globally agreed, principles-based classification of alternative assets is introduced to help supervisors and insurers assess and address risks associated with valuation uncertainty, illiquidity, and complexity. Furthermore, the paper outlines critical supervisory concerns regarding AIR transactions, including their inherent complexity, recapture risk, concentration risk, and the potential exploitation of cross-jurisdictional differences in reserve valuation, capital requirements and investment flexibility.
- To address the risks emerging from these trends, the IAIS will undertake enhanced monitoring, explore in-depth systemic risk analysis and develop supervisory guidance.

Basel, Switzerland – The International Association of Insurance Supervisors (IAIS) today published a comprehensive, in-depth analysis (Issues Paper) examining structural shifts in the life insurance sector. The paper focuses on the increasing allocation to alternative assets within life insurers' portfolios and the growing adoption of cross-border asset-intensive reinsurance (AIR).

The paper provides a detailed analysis of the drivers and potential risks of these shifts, alongside insights into how insurance supervisors are addressing these challenges. Based on currently available data and analyses, the paper finds that systemic risk appears limited at the global aggregated level. Rapid growth of alternative assets and AIR, as well as concentrated exposures among certain insurers, warrant close monitoring to mitigate emerging vulnerabilities.

"Structural shifts in the life insurance sector present both opportunities and challenges," said Toshiyuki Miyoshi, IAIS Executive Committee Chair. "This paper underscores the importance of robust supervisory frameworks to manage emerging risks while recognising the potential benefits of these trends for insurers and the real economy."

Key risks associated with alternative assets include valuation uncertainty, illiquidity and complexity. Addressing these risks requires robust risk management practices, including scenario analysis and liquidity risk stress testing, careful alignment with insurers' liabilities, strengthened governance and valuation practices, and robust and transparent credit risk assessments.

The paper provides the first globally agreed definition of alternative assets, marking a pivotal step in recognising their growing significance in the insurance sector, and supporting better consistency in the monitoring of exposures at the global level.

AIR transactions raise supervisory concerns related to complexity, recapture risk, concentration risk and the potential for these transactions to leverage cross-jurisdictional differences in reserve valuation, capital requirements and investment flexibility. This warrants supervisory scrutiny of AIR transactions, scenario analysis and assessment of counterparty risks, recognising exposures are concentrated in certain insurers and markets.

“The primary aim of macroprudential policy for the insurance sector is to ensure that the financial system and insurers can absorb, rather than amplify, adverse shocks”, said Jonathan Dixon, IAIS Secretary General. “Given the continued rapid growth in this area globally, and considering concentrations in certain insurers and markets regionally, it is critical the IAIS and insurance supervisors maintain a close watch.”

Going forward, the IAIS will strengthen its monitoring of investments in alternative assets and AIR, explore a more in-depth systemic risk analysis of these structural shifts using enhanced data, and develop practical guidance on supervising these changes. The IAIS will review its existing standards to identify and recommend necessary improvements to strengthen global supervisory oversight. These initiatives reaffirm the IAIS’ commitment to supporting supervisors in navigating emerging trends and ensuring that global insurance markets remain resilient, given the cross-border nature of these developments.

This paper builds on multi-year monitoring efforts by the IAIS through its annual Global Monitoring Exercise and incorporates extensive supervisory input. It has benefited from more than 500 comments provided by a wide range of stakeholders worldwide through a public consultation process.

Full details on the Issues Paper on structural shifts in the life insurance sector and the list of public consultation comments received with the IAIS’ responses are available here.

Background

The Global Monitoring Exercise (GME) is the IAIS’ framework for monitoring risks and trends in the global insurance sector and assessing the possible build-up of systemic risk. It draws on data from 57 of the largest international insurance groups and aggregate market-wide data from supervisors across the globe, representing more than 90% of global gross written premiums. The annual Global Insurance Market Report (GIMAR) reports on the outcomes of the GME, with a mid-year preview published in July.

The IAIS has been at the forefront of monitoring structural shifts in the life insurance sector for alternative assets and AIR, providing in-depth analysis through its GME and annual GIMAR since 2020.

About the IAIS

The IAIS is a global standard-setting body whose objectives are to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions. Learn more at www.iais.org. Follow us on LinkedIn: IAIS – International Association of Insurance Supervisors.

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