International Association of Insurance Supervisors

Global Insurance Market Report (GIMAR)

SPECIAL SECTION EXCERPT

Impact of geoeconomic fragmentation on insurers' management of assets and liabilities

December 2025

Acronyms and abbreviations

ALM	Asset-liability management
FX	Foreign exchange
GNA	Gross notional amount
IMF	International Monetary Fund
US	United States

About the GIMAR

This is an excerpt from the thirteenth issue of the Global Insurance Market Report (GIMAR). The GIMAR reports on the outcomes of the IAIS' Global Monitoring Exercise (GME). The GME is the IAIS' framework for monitoring risks and trends in the global insurance sector and assessing the possible build-up of systemic risk.

This document is available on the IAIS website (www.iais.org).

3.1 IMPACT OF GEOECONOMIC FRAGMENTATION ON INSURERS' MANAGEMENT OF ASSETS AND LIABILITIES

The global economy is increasingly contending with the complexities of geoeconomic fragmentation, driven by escalating geopolitical tensions and the growing shift of economic activities into regional or national blocs. This trend presents significant challenges to global growth and financial stability. The IMF[12] has cautioned that such fragmentation could dampen economic prospects and weaken international cooperation, thereby undermining global resilience.

These disruptions have the potential to spill over into macroeconomic and financial risks, including heightened credit, market and liquidity risks, as well as increased inflation and greater exposure to FX volatility. For insurers, such risks may require a strategic reallocation of asset and liability portfolios to address emerging vulnerabilities.

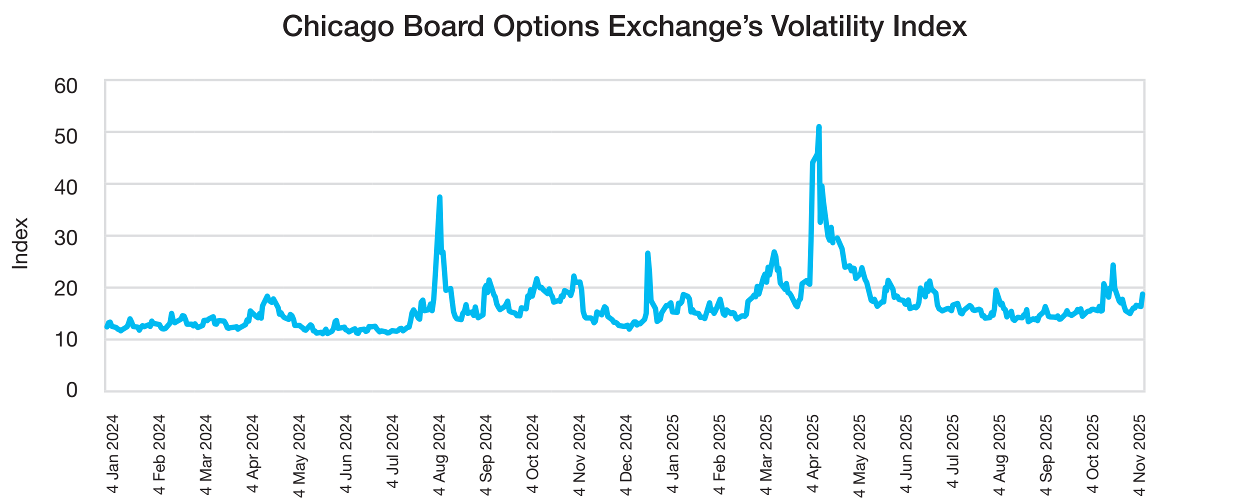
Thus far, markets have demonstrated resilience, with volatility returning to relatively low levels in Q4 2025, as illustrated in Figure 14. However, the uncertainty surrounding geoeconomic fragmentation has been a recurring theme, underscoring the importance of adopting a forward-looking approach to identify potential vulnerabilities early and mitigate risks effectively.

3.1.1 Transmission channels

Geoeconomic fragmentation potentially impacts insurers through key transmission channels, including financial market volatility, inflationary pressures and supply chain disruptions. These factors could adversely impact asset valuations, solvency positions and claims inflation, particularly within non-life insurance lines.

Regulatory divergence further increases operational complexity, while slower economic growth and recessionary pressures could reduce demand for insurance products. Additionally, currency mismatches and rising credit risks contribute to financial vulnerabilities, posing additional challenges to insurers' profitability and overall resilience.

FIGURE 14



Source: Bloomberg

[12] International Monetary Fund, Global Financial Stability Report. 2025

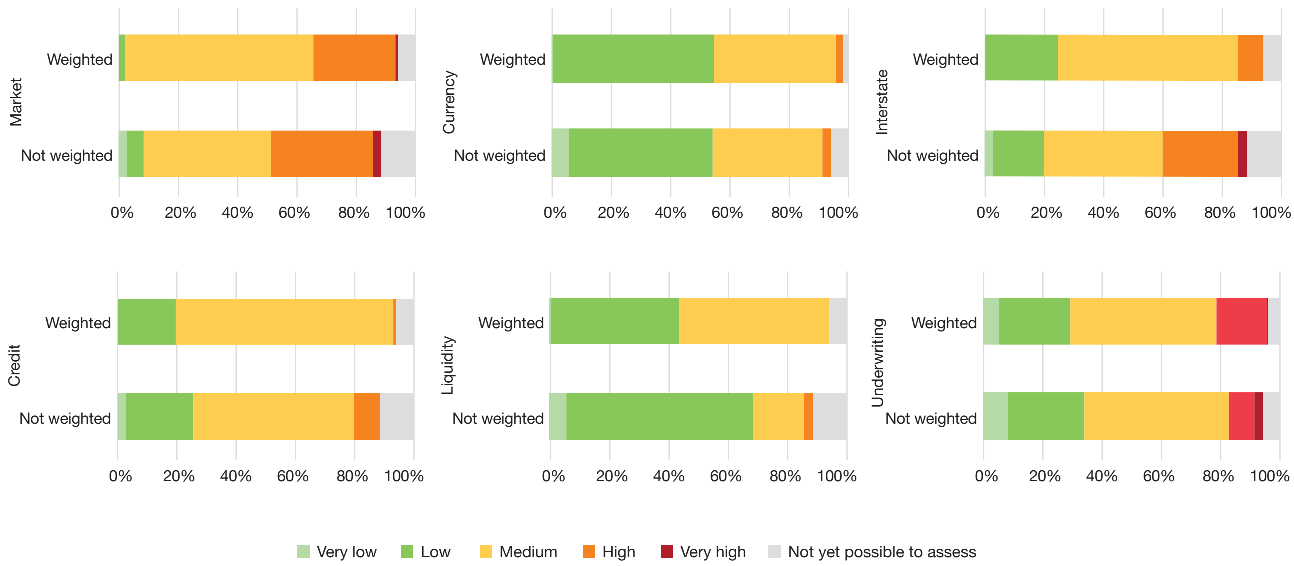
3.1.2 Key risks arising from geoeconomic fragmentation

Geoeconomic fragmentation poses a variety of risks to financial markets, insurers and supervisory frameworks. These risks could span across asset classes, interest rate exposures, currency mismatches and underwriting practices, with varying degrees of impact. While insurers have taken steps to mitigate some vulnerabilities, the evolving nature of these risks requires continued adaptation and resilience.

Geoeconomic fragmentation introduces financial market risks, affecting insurers' assets and adding complexity to diversification efforts.

FIGURE 15

Geoeconomic fragmentation: perception of risk (n=35)



Source: IAIS SWM 2025

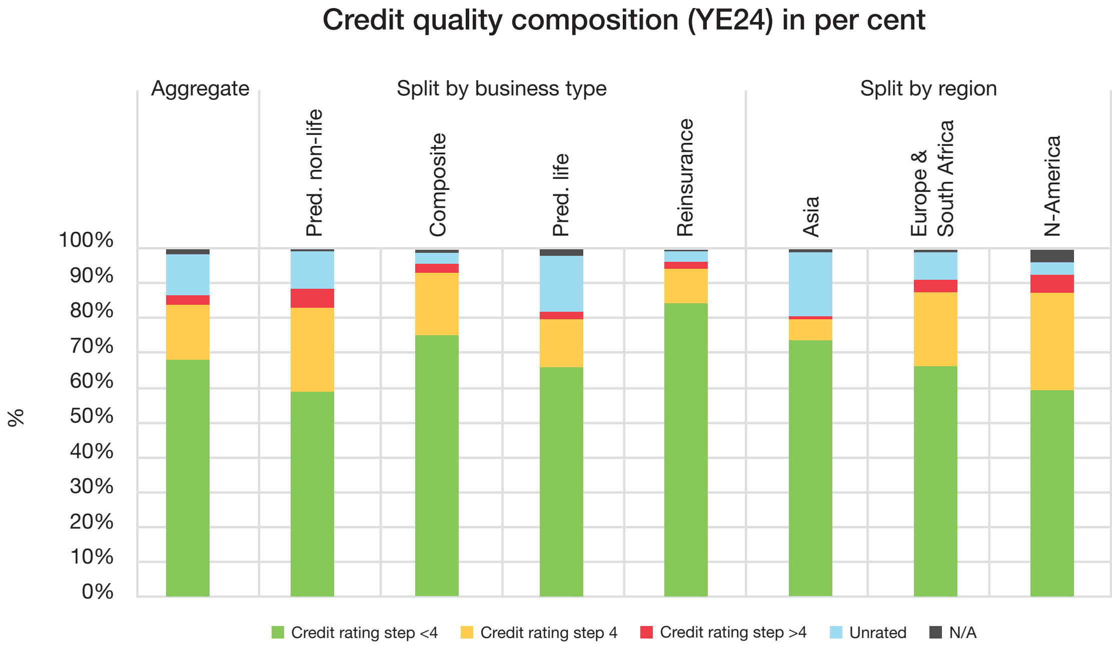
Financial market risks

The potential impact of geoeconomic fragmentation on financial markets is generally perceived to be in the medium-to-high range, while most individual risks are viewed as having a medium-to-low impact (Figure 15). Notably, geoeconomic fragmentation is expected to affect all asset classes, posing challenges to achieving effective diversification across them. However, insurers' investments are predominantly concentrated in high-quality assets, which are expected to provide a buffer against potential market downturns (Figure 16).

Interest rate risk

Exposure to interest rates across different jurisdictions represents a potential source of risk, as diverging monetary policies may cause interest rates to move in opposite directions. This risk becomes more pronounced when duration gaps[13] are significant, as changes in asset values may not be adequately offset by corresponding changes in liabilities, adding pressure to balance sheets. Nonetheless, insurers have made substantial progress in recent years by significantly reducing their duration gaps, thereby lowering their vulnerability to this type of risk (Figures 17, 18 and 19).

FIGURE 16



Source: IAIS IIM 2025

[13] A duration gap is a measure of the difference between the duration of a financial institution's assets and the duration of its liabilities. It is used to assess the sensitivity of the institution's net worth to changes in interest rates. A positive duration gap indicates that liabilities are more sensitive to interest rate changes than assets, potentially decreasing the net worth if interest rates fall. Conversely, a negative duration gap suggests that assets are more sensitive, potentially decreasing the net worth if interest rates rise.

FIGURE 17

Duration gap (YE19–YE24) in per cent

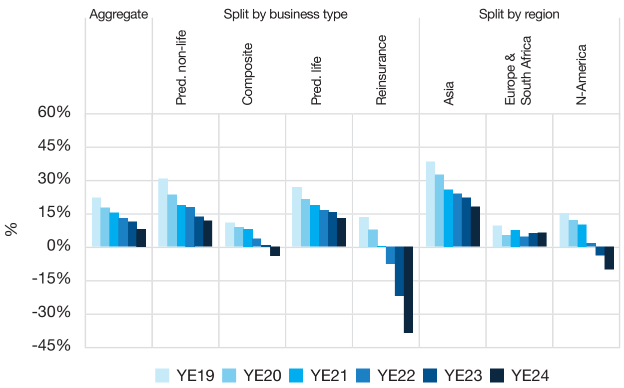


FIGURE 18

Duration of assets (YE19–YE24)

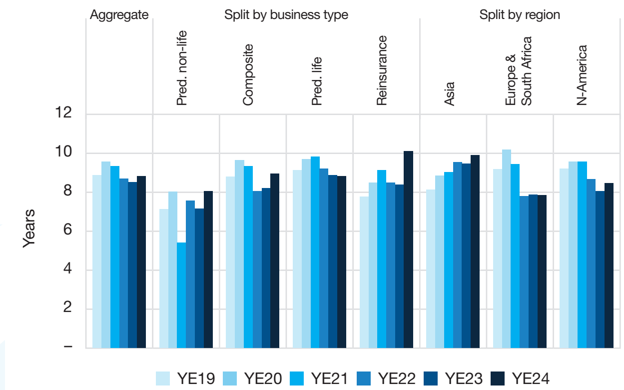
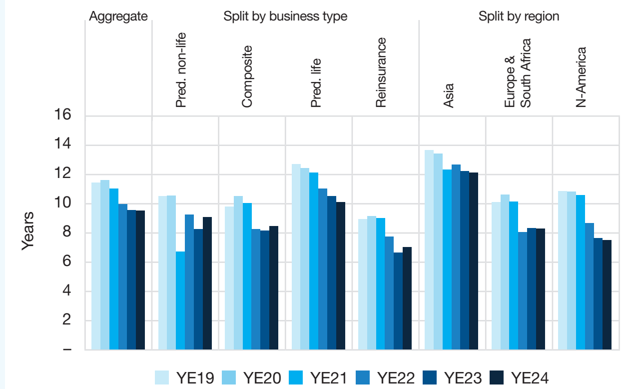


FIGURE 19

Duration of liabilities (YE19–YE24)



Source: IAIS IIM 2025

Currency risk

Geoeconomic fragmentation is noted to have an impact on currency exchange rates, including significant currencies such as the US$. Insurers are generally well-aligned in terms of currency exposures, often deploying derivatives to hedge their positions. However, heightened volatility in FX markets is expected to raise hedging costs, which, in turn, could place downward pressure on insurers' profitability.

Geoeconomic fragmentation also poses medium-to-high risks to financial markets, affecting diversification and increasing currency and interest rate risks. Insurers mitigate these through high-quality assets, reduced duration gaps, and hedging, though rising hedging costs may pressure profitability.

Box: Insurers' foreign currency exposures and mismatches

This box provides an overview of large, internationally active insurers' foreign currency exposures and asset-liability mismatches.[14] The insurance groups are assigned to regions based on the location of their headquarters, and a currency is classified as "foreign" if it is not the domestic currency in that country.

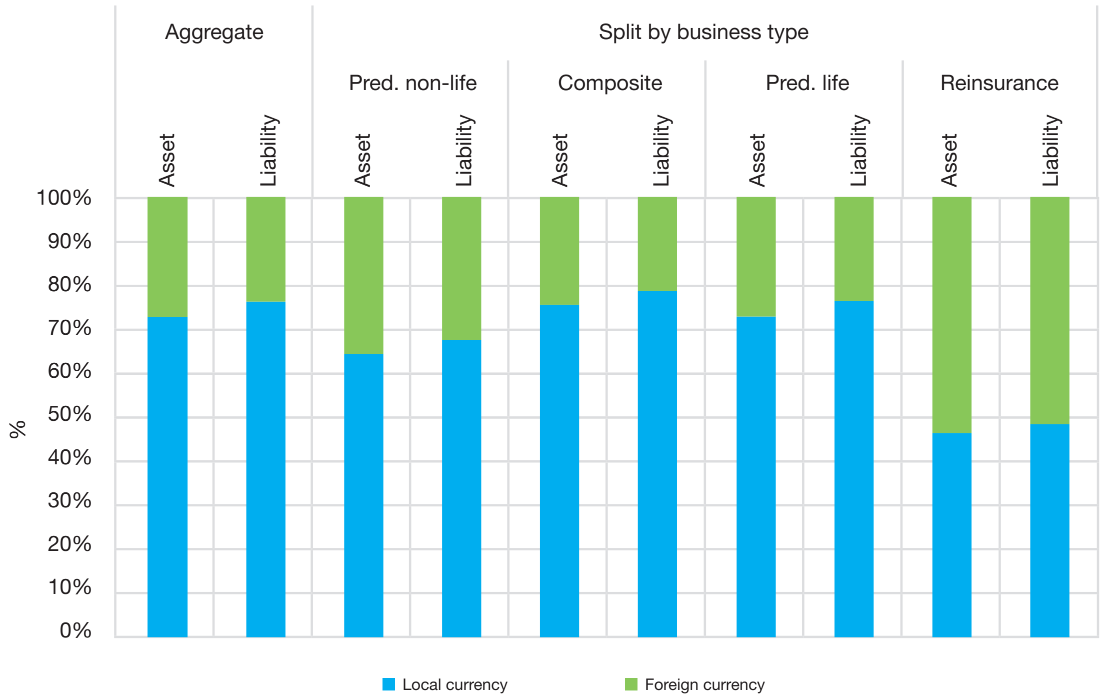
At the aggregate level, assets and liabilities in the insurance sector are mostly held in domestic currencies (Figure 20). A more equal split between domestic and foreign currencies among reinsurers reflects their global oriented business models.

The split of assets and liabilities by foreign and domestic currency indicates that foreign liabilities are generally backed by foreign currency assets across all business models.

The US$ plays a predominant role as a foreign currency both on the asset and the liability sides of insurers' balance sheets (Figure 21). This is the case across all regions and business types.

FIGURE 20

Asset and liability composition (YE24)



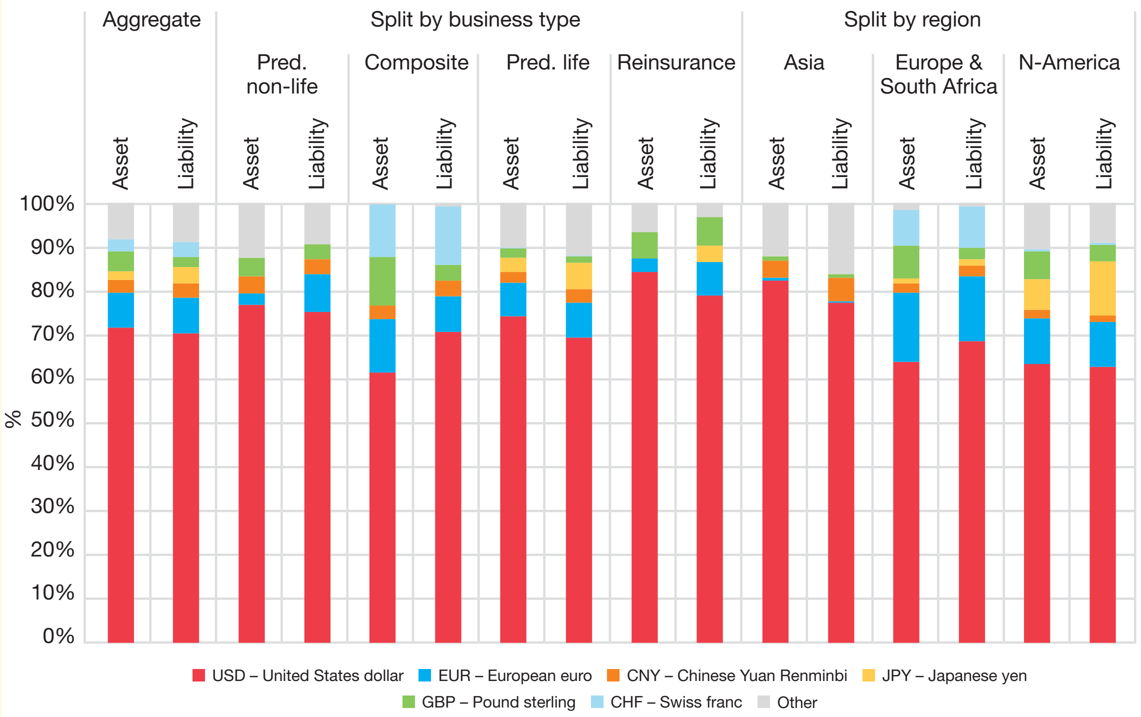
Source: IAIS IIM 2025

[14] Importantly, these large insurance groups offer liabilities in multiple currencies in different jurisdictions. This explains the non-negligible amount of "foreign" currency exposures shown in the remainder of this annex.

Box: Insurers' foreign currency exposures and mismatches (continued)

FIGURE 21

Composition of assets and liabilities in foreign currency (YE24)



Note: Split "by region" refers to the region in which the insurance group's headquarters is located.
Source: IAIS IIM 2025

Assets in a particular foreign currency may not correspond to instruments in the same currency. While such asset-side mismatches constitute a small share of the total balance sheets, they are mostly denominated in US$ (Figure 22, positive bars). There are regional differences, with Asia having a higher concentration of US$ mismatches than Europe or North America.

From a funding perspective, the majority of foreign-currency liabilities are matched with assets in the same currency (Figure 22, negative bars). In the case of foreign-currency mismatches, which amount to less than 2% of total liabilities, the US$, EUR and JPY play rather similar roles in the aggregate. In addition, foreign-currency mismatches are primarily concentrated in specific insurers involved in cross-border operations, reflecting the diversity of business models and funding strategies.

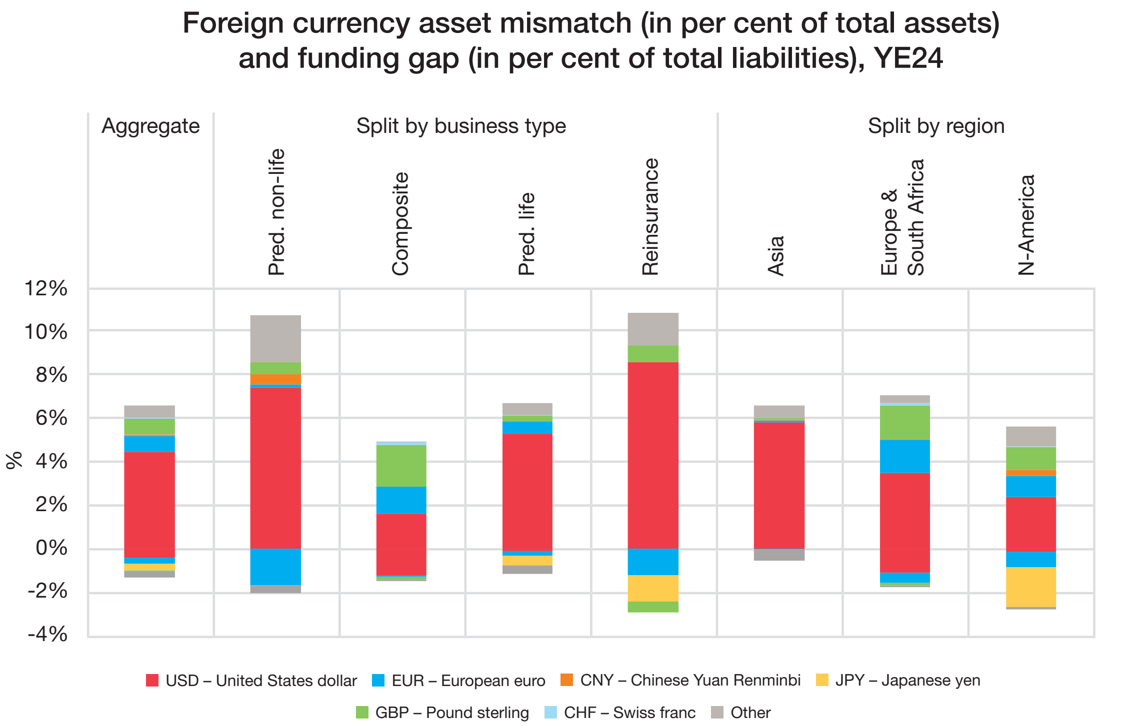
When interpreting Figure 22, it is important to note the following: First, taken together, the asset- and liability-side findings suggest that insurance groups use their domestic currency to fund a small portion of their foreign-currency assets. Second, for most insurers, asset-liability currency mismatches are smaller than the total gross notional amount (GNA) of FX derivatives, indicating that much of on-balance sheet FX risk may be hedged.[15]

[15] The data collection does not distinguish between GNA of FX derivatives by currency; therefore, it is not possible to compare the GNA of FX derivatives in each single currency.

Box: Insurers' foreign currency exposures and mismatches (continued)

Overall, currency mismatches remain minor for insurers.[16] Those that exist are addressed by insurers using derivatives and through the proper application of ALM. These practices are closely monitored by supervisory authorities and operate within a strong regulatory framework. This includes stress tests and risk-based capital requirements that ensure insurers hold sufficient capital for currency risks and encourage proper matching of assets and liabilities in the same currency. It also includes monitoring of cross-border funding dependencies. Moreover, in most markets, domestic investment restrictions or dissuasive capital charges for currency risk aim to reduce FX risk by limiting exposure to foreign currencies.

FIGURE 22



Source: IAIS IIM 2025. Note: Split "by region" refers to the region where the insurance groups' headquarters are located. The positive part of each bar shows insurers that hold more assets than liabilities in a specific foreign currency (asset mismatch). The amount is shown relative to total assets. The negative part of each bar shows insurers that hold more liabilities than assets in a specific foreign currency (funding gap in foreign currency). The amount is shown relative to total liabilities. Each calculation is initially carried out at the level of individual insurer groups and subsequently aggregated.

[16] In the life insurance sector and participating business, where currency mismatches are larger, it should be noted that even if the liabilities are labelled in a given currency, the profit-sharing mechanisms induce an implicit currency matching if a share of the underlying assets is invested in foreign currencies.

Underwriting risks

Underwriting risk is perceived to fall within the low-to-medium impact range. This is mostly driven by the expectation that insurers can adapt their business models to changing market conditions, such as periods of heightened inflation. However, trade credit insurance stands out as an exception. In the context of increasing geoeconomic fragmentation, trade credit insurance faces heightened risks, as sudden policy changes, such as the imposition of trade barriers, sanctions or export restrictions, can disrupt global supply chains. These developments can lead to unexpected defaults by counterparties, amplifying the challenges for insurers in this segment. As global economic interdependencies weaken, the ability to accurately assess and price trade credit risk becomes increasingly complex.

Additionally, geopolitical tensions have contributed to a rise in cybercrime, further increasing insurers' exposure to operational risks, as well as liability risks as businesses seek coverage for cyber incidents and data breaches.[17]

Measures by supervisors and insurers

Insurers are employing various strategies to mitigate risks arising from geopolitical and economic challenges. Investment strategies increasingly focus on high-quality securities, with a preference for domestic or regional fixed-income assets, which reduces exposure to high-risk regions and minimises FX risk. However, techniques such as increasing the home bias are not without controversy, as they can heighten concentration risk. ALM practices, such as matching the duration and currency of assets and liabilities, are widely implemented, supported by derivatives and scenario-based stress testing. Supervisors monitor granular asset-level data and conduct stress tests to identify vulnerabilities and ensure resilience.

To adapt to evolving risks, insurers are revising underwriting criteria, adjusting policy terms, and diversifying across markets and product lines to address challenges such as supply chain disruptions. Governance frameworks and risk management practices are under constant review, with some insurers reorganising legal entities or operational hubs to reduce exposure to high-risk jurisdictions. Restrictions on cross-border business and investments have led some insurers to refocus on regional markets. Supervisors are actively working to enhance the alignment of their regulatory frameworks with the IAIS' Insurance Core Principles (ICPs), with the aim of ensuring greater consistency, effectiveness, and harmonisation in their supervisory efforts across jurisdictions. They are also intensifying international collaboration to share best practices and experiences, fostering a more coordinated response to emerging risks.

Underwriting risks are perceived to be low-to-medium. However, cybercrime and trade credit insurance may face higher risks from geoeconomic shifts.

[17] World Economic Forum. Global Cybersecurity Outlook 2025.

Overview of measures regarding geoeconomic fragmentation

Key measures by supervisors:

- Analysis of granular asset-level data, conducting stress tests and ensuring insurers adhere to solvency and risk management regulations to detect vulnerabilities early on.
- International supervisory cooperation, including information sharing and further harmonisation of supervisory standards to avoid fragmentation.

Key measures by insurers:

- Revising underwriting criteria, adjusting policy terms, diversifying product offerings and exploring new markets to address challenges like supply chain disruptions and shifts in demand.
- Asset (re)allocation to ensure investments in high quality assets.
- Continuous review of governance frameworks, reorganising legal entities or operational hubs to reduce exposure to high-risk jurisdictions and monitoring socioeconomic conditions for proactive risk adaptation.

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