Macroprudential Committee (MPC)

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Global Insurance Market Report (GIMAR) 2024

↓ Link ↓

IAIS

IAIS risk assessment through the GME

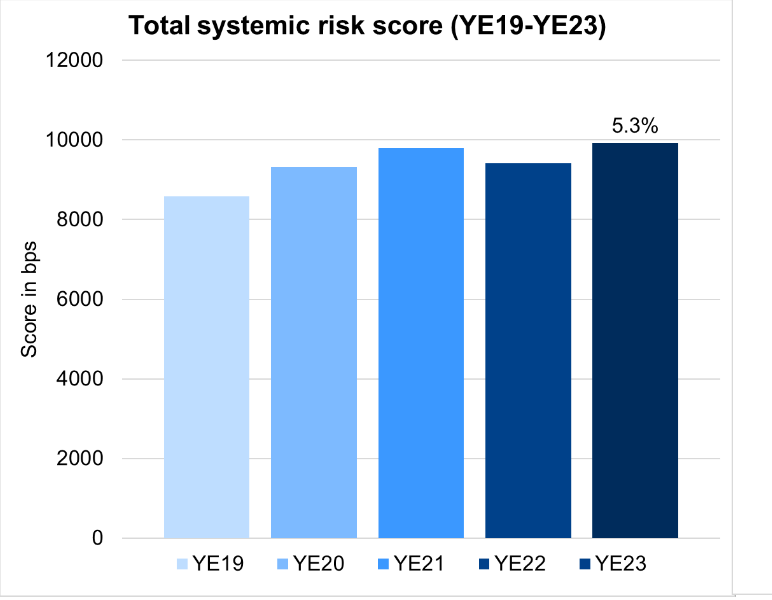
- **Global Monitoring Exercise** (GME) builds on data collected from ~60 of the largest international insurance groups (**individual insurer monitoring**) as well as ~ 50 supervisors (**sector-wide monitoring**) – covering >90% of global gross written premiums.
- Annual report to FSB. In 2025 the FSB will review its experience with the process of assessing and mitigating systemic risk based on the Holistic Framework.
- Report to participating insurers and supervisors.
- Aggregate findings disclosed in the twice-yearly Global Insurance Market Report (**GIMAR**)

Themes in focus of 2024 GIMAR:

1. **Interest rate, liquidity and credit risks in the current macroeconomic environment**
2. **Structural shifts in the life insurance sector, including increased asset allocation to alternative investments and increased use of cross-border asset-intensive reinsurance.**

Global Insurance Market Report (GIMAR) December 2024

- **Solvency** and **profitability** positions remained stable, supported by strong underwriting performance and robust investment income. **Liquidity** positions increased slightly in 2023, with insurers focusing on maintaining adequate liquidity buffers.
- The **outlook** for the insurance sector remains stable despite an uncertain macroeconomic and geopolitical landscape.
- Aggregate **systemic risk scores increased** by 5.3% in 2023: driven mostly by level 3 assets, partially offset by decreases in intra-financial liabilities and short-term funding.



- This rise in level 3 assets is largely **driven by accounting changes** from IFRS 9 and 17, which led to reclassification of certain assets (especially mortgages) from valuation at amortised cost to fair value.
- Following these changes, the IAIS is considering **updating the level 3 assets indicator** in the 2025 triennial assessment review and is developing an ancillary indicator to enhance risk assessment of **mark-to-model assets**.
- On a cross-sectoral basis, when comparing aggregate systemic risk scores of insurers to those of banks, the Insurer Pool systemic risk score **remains significantly below the banking pool score.**

Theme 1: Interest rate, liquidity and credit risks in a challenging macroeconomic environment

- The global economy has been relatively stable. However, some economies are still contending with elevated **inflation**.
- **Economic growth** could be negatively affected by prolonged high interest rates in certain markets, high government debt, a tightening in monetary and/or fiscal policies. Geopolitical risks add uncertainty, potentially increasing protectionism and causing negative cross-border effects.

Specific areas of attention under this theme:

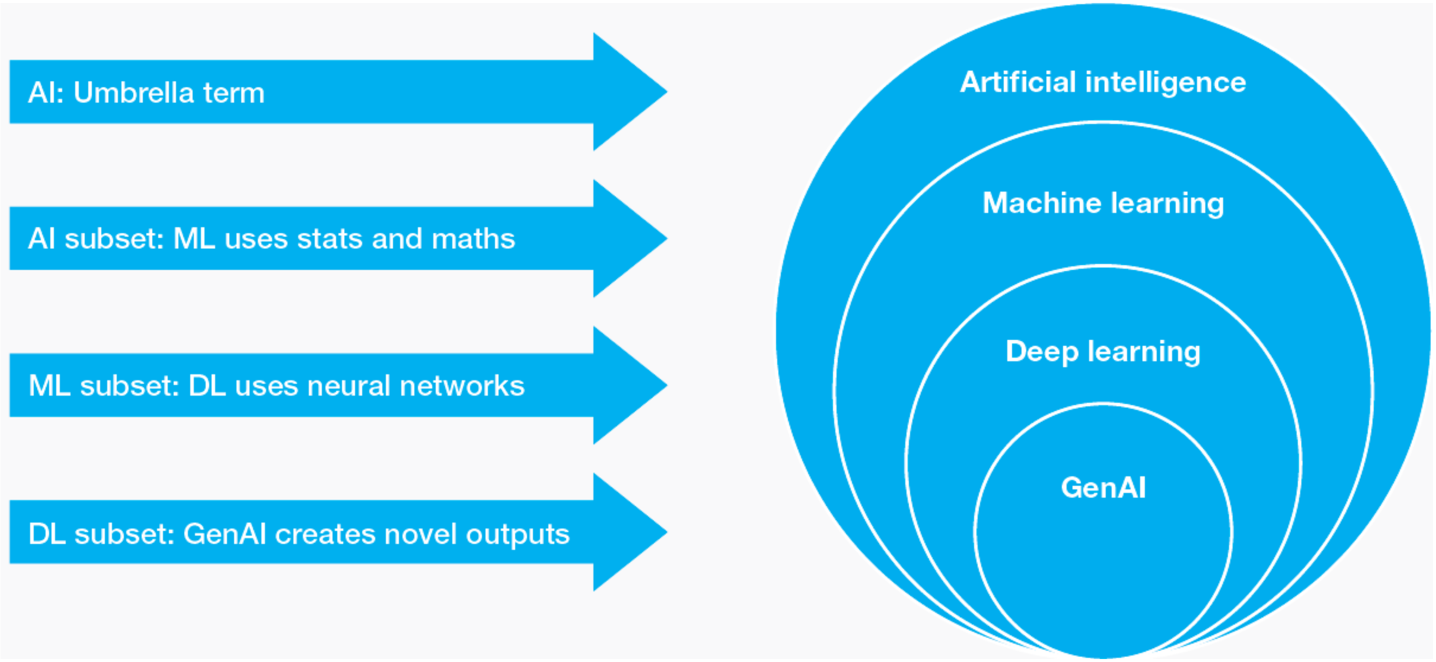
- **Interest rate and liquidity risks**, stemming from lapses and surrender risk, funding pressures and the impact of higher derivative activity & related margin calls.
- **Credit risk**, including debt sustainability of fixed-income assets and second-round effects from commercial real estate (CRE) exposures.
- Transmission channels from **geopolitical risks.**
- **Operational resilience** to cyber-risk and **climate-related risks.**
- The impact of **digitalisation and artificial intelligence (AI) systems** on the insurance sector.

Increased focus on geopolitical risk and digitalisation/artificial intelligence systems

Types of geopolitical risks and transmission channels

Political instability (including disruptive election outcomes, civil unrest or conflicts) can lead to economic downturns.
Trade disputes and economic sanctions can slow economic growth and increase market volatility.
Military conflicts and terrorism affect economic activity, create physical damages and affect mortality rates.
Cyber threats involve malicious attacks on computer systems, while cyber warfare entails state-sponsored efforts to disrupt or damage another nation's critical infrastructure.
Shifts in government policies and regulations can disrupt global stability, trade and markets, creating uncertainty and compliance challenges for businesses.
Social unrest, including protests and strikes, can disrupt economic activity.
Trade wars and protectionist policies disrupt global supply chains and increase costs.

Different forms of artificial intelligence



For impact on life and non-life insurers: see GIMAR 2024

Source: GIMAR 2024

Theme 2: Structural shifts in the life insurance sector

- Trends are partly driven by insurers either owned by – or whose assets are managed by – **private equity (PE)** groups.
- PE groups have brought valuable investment but these trends raise concerns about potential conflicts of interest, increased risk-taking and internal governance issues.

Growing investment in alternative assets

- Benefits, including potential diversification effects and better asset and liability management.
- However also potential increased exposure to risks:
  - Liquidity
  - Valuation
  - Hidden leverage
  - Credit
- Potential conflicts of interest with affiliated-party transactions.
- In response, supervisors are conducting stress testing, performing thematic reviews, implementing guidelines for macroprudential supervision and assessing valuation methodologies.

Increased usage of asset-intensive reinsurance*

- Potentially driven by interest rates, credit spreads, pension reforms and demographic changes.
- Key supervisory concerns:
  - Whether these transactions are driven by regulatory differences,
  - Potential concentration risks at the jurisdictional and reinsurer level,
  - Increasing complexity of these types of reinsurance agreements and
  - Conflicts of interest.
- The potential procyclicality of recapture triggers and potentially high levels of risk concentration in a few reinsurers and jurisdictions are being monitored (macroprudential view).
- Supervisory measures vary across jurisdictions, for example, with some supervisors of insurers ceding insurance cross border requiring supervisory pre-approval.

* Reinsurance whereby a material part of the investment risk is also transferred to the reinsurer

Public consultation on ancillary risk indicators in the GME

↓ Link ↓

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Confidential

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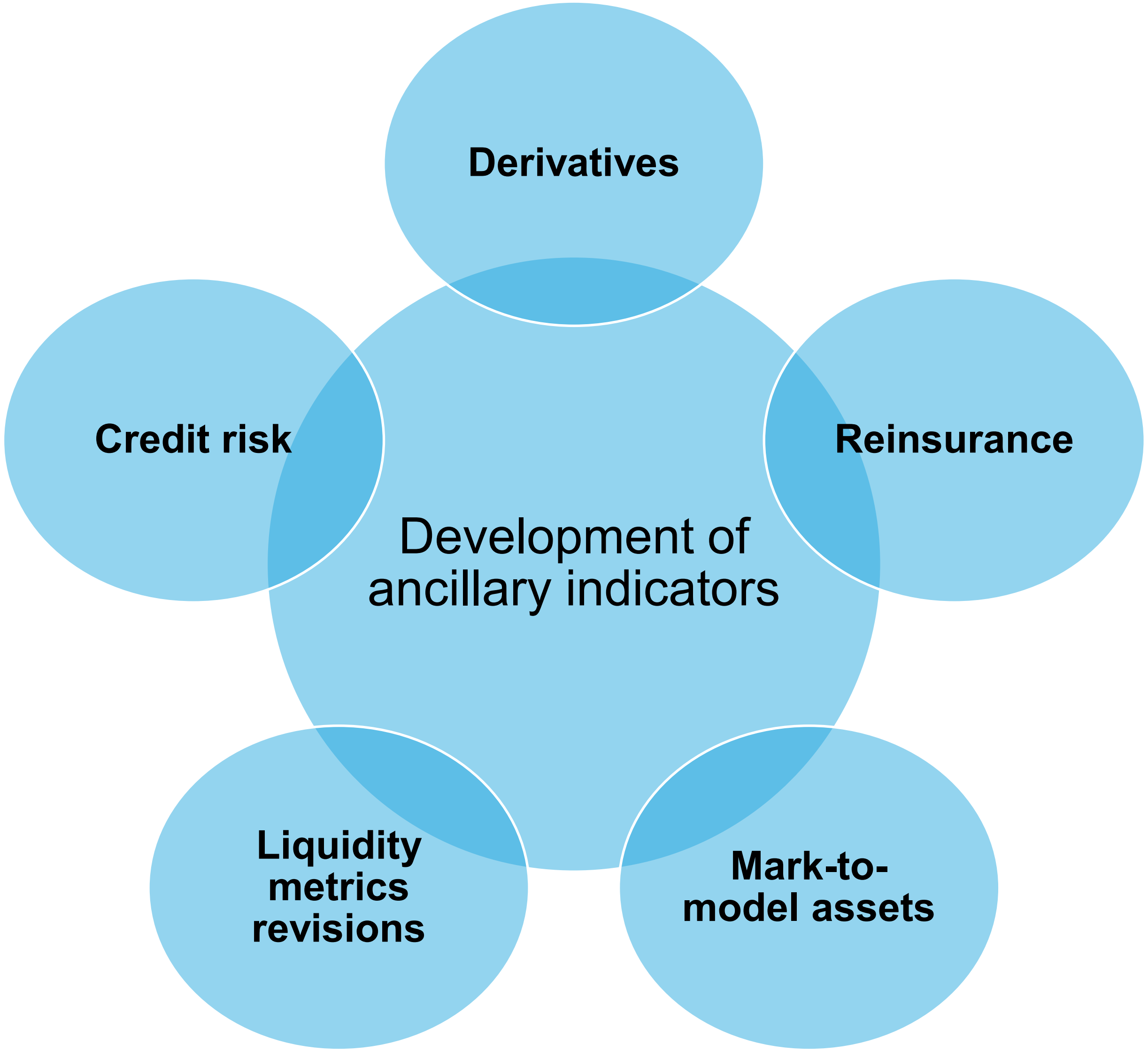
Public consultation on ancillary risk indicators in the Global Monitoring Exercise

27 November 2024

Deadline for responses: 3 February 2025

Please observe the confidentiality notice detailed on page 1 of this document.

Public consultation on ancillary risk indicators in the GME



- Provide your consultation input by 3 February 2025.
- Input received will be considered in the context of the upcoming triennial review of the GME assessment methodology.

Register for the 11 December ↓ public background webinar ↓

Preview to 2025

IAIS

New MPC projects in 2025

Issues Paper on structural shifts in life insurance: Public consultation planned in March 2025

- Share IAIS member practices for supervising risks associated with increased investment in alternative assets.
- Develop a definition of alternative assets using risk-based principles to help supervisors classify these and align supervisory practices.
- Explore supervisory practices to managing risks of cross-border asset-intensive reinsurance – including understanding different jurisdictional approaches to capital, collateral, reserving, and asset valuation.
- Identify potential gaps in IAIS supervisory material (ie principles, standards and guidance) on alternative assets and asset-intensive reinsurance.

Triennial review of the GME

- Input into the FSB review of its experience with the process of assessing and mitigating systemic risk based on the Holistic Framework.

GIMAR special topic 2025: potential financial stability implications of NatCat protection gaps

- Discussion on the underlying risk drivers and resulting vulnerabilities – focusing on transmission channels from a reduction in availability and affordability of insurance to the financial system and real economy.
- Quantitative analysis.