PRESS RELEASE

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IAIS Global Insurance Market Report 2023 highlights key risks and trends facing the global insurance sector

- Aggregate systemic risk scores of the global insurance sector declined slightly compared to last year's analysis, remaining well below that of banks.
- In addition to an aggregate overview of insurers' solvency, profitability and liquidity, the report shares in-depth analyses conducted on two key themes: (1) interest rate, liquidity and credit risks in a challenging macroeconomic environment; and (2) structural shifts in the life insurance sector, including greater allocation of capital to alternative assets and increased reliance on cross-border asset-intensive reinsurance.
- Insurers continue to have material exposures to climate change, through their significant investments in "climate-relevant sectors",[1] and through the expected increase in claims related to natural catastrophe (NatCat) events, which may impact profitability and capital adequacy.
- Looking ahead, insurers' solvency and profitability could be negatively impacted by lapses, unrealised losses and reduced insurance demand due to strains on households' purchasing power in some markets. Geopolitical tensions continue to negatively influence the outlook.

Basel, Switzerland – The International Association of Insurance Supervisors (IAIS) today published its 2023 Global Insurance Market Report (GIMAR), sharing the outcomes of this year's Global Monitoring Exercise (GME), the IAIS' risk assessment framework to monitor key risks and trends and detect the potential build-up of systemic risk in the global insurance sector. The GME builds on data collected by year-end 2022 from approximately 60 of the largest international insurance groups and aggregate sector-wide data from supervisors across the globe, covering over 90% of global written premiums.

"GME data indicates that global insurance sector capital adequacy remains sound but has slightly declined at year-end 2022, primarily due to financial market developments such as lower asset valuations," said Shigeru Ariizumi, IAIS Executive Committee Chair. "Nevertheless, the aggregate systemic risk footprint of the insurance sector decreased at year-end 2022 compared to the year before."

Key drivers for the decline in system risk scores of the insurance sector are lower exposures to short-term funding, liability liquidity, intra-financial assets and minimum guarantees on variable products. A cross-sectoral comparison of insurance systemic risk scores with the banking sector shows that systemic risk stemming from insurers remains significantly below that of banks.

The assessment of climate-related risks in the insurance sector shows that insurers globally maintained significant exposure to climate-related assets, with insurers continuing to allocate substantial portions of their investment portfolios to climate-relevant sectors, exposing themselves to transition risk. One of the main physical risks of climate change for insurers is the expected increase in claims related to NatCat events. An increase in extreme NatCat events may impact insurers' profitability, challenge their capital management and may disrupt reinsurance markets.

[1] Climate relevant sectors include: fossil fuels, utilities (electricity), energy-intensive activities, buildings, transportation and agriculture.

In-depth analysis was performed on two macroprudential themes, which will also be the focus of ongoing work:

1. Interest rate, liquidity and credit risks in a challenging macroeconomic environment; and
2. Structural shifts in the life insurance sector, including greater allocation of capital to alternative assets and increased reliance on cross-border asset-intensive reinsurance.

"While rising interest rates positively affected insurers' aggregate solvency positions, they may result in unforeseen cash outflows, such as margin calls on derivatives or policy surrenders," remarked Jonathan Dixon, IAIS Secretary General. "In the evolving digital landscape, lapse risk dynamics may have shifted. Factors such as social media can influence policyholder behaviour and the speed at which collective action is initiated." As a result, supervisors are intensifying their monitoring efforts, employing more frequent offsite and onsite supervision. This includes sensitivity analysis and liquidity risk stress testing. Increasing credit risk is also top of mind for supervisors, as are commercial real estate exposures and the insurance sector's interconnectedness with banks.

"We have also been investigating possible risks stemming from shifts in the life insurance sector, including asset-intensive reinsurance and increased asset allocation to alternative investments, which tend to be more complex and less liquid in nature," highlighted Ariizumi. "An adequate understanding of these investments and the management of their risk at the insurer level is important, alongside ensuring that investments are appropriately matched with the liquidity profile of insurers' liabilities."

The increasing use of cross-border asset-intensive reinsurance transactions has raised questions about the extent to which regulatory differences in valuation, reserving and capital requirements across jurisdictions drive this trend. Supervisory focus on these reinsurance transactions also aims to provide clarity on who retains asset ownership (cedent or reinsurer), who manages the assets and which jurisdiction has supervisory authority over these assets.

Lastly, data from the GME demonstrates a sustained growth trajectory in the global reinsurance market. However, significant increases in insured losses caused by NatCat events created pressure on reinsurers' profitability, which deteriorated materially in 2022, notably in the Americas and Europe.

Looking ahead, risk factors affecting future insurance sector solvency and profitability include sustained high levels of inflation, lapses, significant unrealised loss positions and the possibility of a reduction in demand for insurance due to strains on the purchasing power of households. Additionally, geopolitical tensions continue to negatively influence the outlook. The IAIS will continue to actively monitor the global insurance market and refine its systemic risk assessment, including through the development of additional indicators in 2024.

Read the GIMAR here.

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.iaisweb.org. Follow us on LinkedIn: IAIS – International Association of Insurance Supervisors.

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