About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

For more information, please visit www.iaisweb.org and follow us on LinkedIn: IAIS - International Association of Insurance Supervisors.

About the 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 is the mid-year update for the GIMAR 2024.

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Contents

1 INTRODUCTION 1

2 SOLVENCY, LIQUIDITY AND PROFITABILITY 2

3 AGGREGATE SYSTEMIC RISK SCORES 4

4 KEY THEMES FROM THE 2024 GME 5

4.1 Managing interest rate, liquidity and credit risks in a challenging macroeconomic environment 5

4.2 Structural shifts in the life insurance sector 7

4.3 IAIS work on other high priority risks 9

5 NEXT STEPS 11
1. Introduction

The mid-year Global Insurance Market Report (GIMAR) summarises the interim outcomes of the IAIS’ 2024 Global Monitoring Exercise (GME) ahead of the publication of the year-end GIMAR. This report contains preliminary statistics on solvency, profitability and liquidity positions of the global insurance sector; shares aggregate systemic risk scores; and elaborates on key focus areas for the 2024 GME.

The 2024 GME analysis continues to focus on last year’s themes, which remain a priority for insurers and supervisors. These include:

1. Interest rate, liquidity and credit risks faced by insurers in light of the challenging and uncertain macroeconomic environment; and
2. Structural shifts in the life insurance sector, such as increased allocation of capital to alternative assets and increased use of cross-border asset-intensive reinsurance.

Specific areas of attention under the first theme are transmission channels from geopolitical risks, second-round effects from commercial real estate (CRE) exposures, debt sustainability of fixed-income assets and the impact of digitalisation and artificial intelligence (AI) on the insurance sector. Regarding the second theme, the IAIS will continue its monitoring and assessment of potential financial stability risks, which will feed into an Issues Paper, planned for publication in 2025.

This mid-year update is based on preliminary GME 2024 data collected up to June 2024. Results are subject to change in the 2024 year-end GIMAR. Data includes the 2024 individual insurer monitoring (IIM), applicable to insurance groups meeting the Insurer Pool criteria—consisting of approximately 60 of the largest international insurance groups from 18 jurisdictions—and the qualitative sector-wide monitoring (SWM) data, covering aggregate insurance market data collected from IAIS members and comprising more than 90% of global gross written premiums. Quantitative SWM data will feature in the year-end GIMAR.

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1 The quantitative GME 2024 data has year-end 2023 as a reference date (except for one jurisdiction with a financial year ending in March instead of in December). The qualitative GME 2024 component also has a forward-looking perspective, focusing on expected developments in 2024 and 2025.

2 The Insurer Pool criteria, as outlined in the GME document, are: total assets of more than $65 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums of 5% or more, or total assets of more than $215 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums greater than 0%, or up to jurisdictional discretion ($ refers to United States dollars).
Aggregate participating insurers’ solvency, liquidity and profitability positions remained stable in 2023.

Figure 1 shows that solvency, liquidity and profitability positions amongst most participating insurers improved slightly and overall, remained strong. The main factors affecting solvency and profitability include higher interest rates in many regions (which can lower the present value of liabilities, particularly for life insurers offering longer-term products), higher premium income, lower dividend payments by insurers and an upturn in financial markets leading to higher investment returns. Some insurers noted changes to accounting standards, particularly International Financial Reporting Standards (IFRS) 17, as a factor affecting reported profitability.

The movement in liquidity positions varied across insurers. Some insurers experienced increases in liquidity due to factors such as higher dividend upstreams (where a subsidiary insurer distributes profits to its parent insurer), completion of asset sales, or better alignment of liquidity sources to liquidity needs, while others experienced declines because of increased cash outflows or changes in their investment portfolio composition.

Participating insurers took additional measures to manage macroprudential headwinds, maintaining stable and resilient solvency and liquidity positions. Such measures include developing new capital, liquidity and reserve requirement models; collecting more in-depth data; and monitoring interconnectedness between the banking and insurance sectors. Participating insurers also enhanced insurance risk monitoring and assessment frameworks, including stress testing.

Interim outcomes from the Global Monitoring Exercise indicated overall stability in the insurance sector.
Most participating insurers expect stability over the next two years, however note the uncertain global macroeconomic trajectory.

Looking ahead, most participating insurers expect stability over the next two years (i.e., no significant changes in solvency, profitability and liquidity positions). However, some insurers foresee a slight deterioration in positions, largely due to uncertainty on the future global macroeconomic trajectory and specific circumstances that are unique to each insurer. Factors such as geopolitical risk, limited business development opportunities, regulatory changes, debt repayments, deleveraging targets, and expectations of financial market volatility were highlighted as potential influences on future solvency and liquidity positions. Areas of increased focus include cyber risk and operational resilience, climate-related risk, and the implementation of new regulatory regimes such as risk-based capital and IFRS 17.

The 2024 year-end GIMAR will provide more insight into changes in insurers’ solvency, profitability, and liquidity, categorised by region and business model.
3. Aggregate systemic risk scores

Figure 2 shows that aggregate IIM systemic risk scores increased at year-end 2023 compared to year-end 2022.3

The key driver for the increase was a rise in the level 3 assets indicator, primarily driven by accounting changes. For some insurers within the Insurer Pool that report under IFRS, the implementation of IFRS 17, in combination with a delayed implementation of IFRS 9, led to a concurrent reclassification of certain assets from amortised cost to fair value. Because assets whose valuation is based on unobservable inputs (mark-to-model assets) are classified as level 3 when held at fair value, this reclassification resulted in a material increase in the level 3 assets indicator in aggregate. Overall, the total amount of mark-to-model assets (ie adding both assets held at fair value and assets held at cost) remained relatively stable. The IAIS is conducting further analysis to evaluate options for a more comparable, substance-based risk assessment of mark-to-model assets that is less dependent on accounting treatment.

The year-end GIMAR will provide more detail on the underlying drivers of changes in systemic risk indicators and share a cross-sectoral perspective comparing these developments to those in the banking sector.

FIGURE 2: Aggregate systemic risk scores

(source: IIM 2024 – interim result)

The key driver of the increase in aggregate systemic risk scores was a rise in the level 3 assets indicator, mainly driven by accounting changes.

3 For the purposes of this comparison, only data from insurers that participated in the IIM 2020 to 2024 (year-end 2019 to year-end 2023 data) was included.
4 Level 3 assets are illiquid, difficult-to-value assets held at fair value.
4. Key themes from the 2024 GME

The 2024 GME analysis continues to focus on last year’s themes, which remain a priority for insurers and supervisors. These include (1) risks faced by insurers in light of the challenging and uncertain macroeconomic environment and (2) structural shifts in the life insurance sector, such as increased allocation of capital to alternative assets and increased use of cross-border asset-intensive reinsurance.

4.1 MANAGING INTEREST RATE, LIQUIDITY AND CREDIT RISKS IN A CHALLENGING MACROECONOMIC ENVIRONMENT

The global economy has demonstrated strong resilience against higher interest rates in several jurisdictions, despite concerns about stagflation and a global economic recession. Economic growth in 2023 was supported by lower global inflation, increased government spending and increased household consumption. The outlook for the next two years remains stable, with growth expected to be supported by a continued decline in inflation. However, growth could be negatively affected by prolonged high interest rates in certain markets, high government debt, a tightening in monetary and/or fiscal policies and geopolitical tensions.

Heightened geopolitical tensions in the current economic environment may impact global financial stability through various channels such as economic growth, trade relations, market confidence, supply chains, inflation and interest rates. As a result, insurers may experience increased financial market volatility and declines in asset prices, affecting underwriting and investment returns. Additionally, cyber attacks have increased in the digital era, which can compromise data integrity, disrupt operations and result in financial losses.

The IAIS will continue to monitor these developments closely for the global insurance sector. The 2024 GIMAR will elaborate further on transmission channels from geopolitical risks, as well as on the measures insurers and supervisors can take to mitigate the impact of these risks.

Heightened geopolitical tensions may affect financial markets, impacting insurers.
Interest rate and liquidity risk

On interest rate and liquidity risk, key areas of attention in the 2024 GME include:

- **Lapses and surrenders**: The 2024 GME interim outcomes indicate that, despite higher interest rates and inflation in several markets, lapses and surrenders recorded small increases in 2023, compared to the large increases observed in previous years. This was largely due to economic penalties and tax incentives to discourage surrendering of life policies. However, in a period of prolonged high interest rates and inflation, insurers may continue to face challenges in managing their cash flow obligations and maintaining sufficient liquidity to meet the demands of policyholders. While new sales of insurance products can offset an increase in surrenders, early surrenders can disrupt insurers’ long-term financial planning and profitability, as they may have anticipated a longer duration of policyholder participation and premium payments. Legacy policies issued during the previous prolonged period of low interest rates, especially those with rate guarantees and low surrender penalties, may be particularly susceptible to early surrenders.

- **Funding**: In a high interest rate environment, insurers that rely on short-term funding, or have significant outstanding short-term debt, may face liquidity pressures when refinancing or rolling over their debt. Higher interest rates lead to increased borrowing costs, thereby making the renewal or refinancing of short-term obligations more expensive. This can strain insurers’ cash flow and liquidity positions. Insurers with a large amount of short-term debt, due for refinancing within a short period, may encounter challenges to securing new funding or negotiating favourable terms with lenders. Failure to refinance or roll over debt successfully can lead to liquidity constraints, affecting insurers’ ability to meet financial obligations and invest in growth opportunities.

- **Derivatives and margin calls**: Derivatives, such as interest rate swaps used to hedge the impact of interest rate changes, serve as important risk management tools. However, in a period of prolonged higher interest rates, insurers may face collateral calls in the form of variation margin, particularly for centrally cleared contracts. In this case, insurers need to provide additional collateral to cover potential losses or fluctuations in derivative values. This can lead to increased funding needs and liquidity pressures. Supervisors are of the view that these risks could be mitigated through increased monitoring of derivative positions and the use of liquidity buffers and hedging strategies.

- **Impact of digitalisation and AI**: The 2023 banking sector turmoil demonstrated the speed at which customers can act collectively, with some evidence that social media had an influence on several recent bank runs. Furthermore, technological advancements have facilitated a more rapid transfer of financial assets in recent years. Supervisors note that the insurance sector should be mindful of these developments, especially where AI technologies play a role in the insurance sector’s distribution channels, potentially influencing customer behaviour and the risk of lapses and surrenders. AI technologies may provide benefits, such as supporting insurers’ modelling, understanding and analysis of customer behaviour across different channels, tailoring marketing strategies and optimising distribution to mitigate lapses and surrenders. However, increased use of digital tools and AI may also increase cyber security and reputational risks. Cyber security breaches may result in financial losses, reputational damage and regulatory consequences. Insurers can consider prioritising cyber security measures to protect against these potential risks (see also section 4.3).
Credit risk

On credit risk, key areas of attention include:

- **CRE**: The real estate sector, particularly CRE (office and retail space and to a lesser extent, industrial space), has faced significant stress since the Covid-19 pandemic due to lower demand. This, combined with higher interest rates, has resulted in a decline in global CRE prices. Although supervisors indicated that some insurers increased their asset allocation to CRE in recent years, insurers’ aggregate exposures to CRE remain generally limited. However, there is a possibility of second-order effects materialising. The market for securitisations of real estate assets is also under pressure, impacting liquidity and investor confidence.

- **Fixed-income investment exposure**: High interest rates increase the cost of borrowing for fixed-income securities, which include sovereign debt, corporate debt and real estate, thereby putting pressure on debt sustainability. This has implications for the insurance sector, which often holds substantial exposures to these types of assets to generate income and manage risk. Increases in credit spreads, downgrades and defaults in certain markets warrant increased attention. From a supervisory perspective, these risks can be mitigated if insurers closely monitor their fixed-income holdings, assess (illiquid) asset valuation and issuer creditworthiness and adjust investment strategies accordingly. Robust risk management frameworks, including risk diversification and strong asset-liability management, are crucial. Stress testing and scenario analysis can help identify vulnerabilities so that insurers can implement appropriate risk mitigation measures.

In the 2024 GIMAR, the IAIS will conduct a more in-depth analysis of how the insurance sector is responding to the aforementioned challenges. The focus will be on evaluating the impact of these conditions on interest rate, credit and liquidity risks. This assessment will involve identifying key exposures and vulnerabilities within the sector. The IAIS will closely examine the measures implemented, or planned, by insurers and supervisors. Through this analysis, the IAIS aims to enhance its understanding of how the insurance sector is navigating the complexities of high interest rates and inflation. The findings from this assessment will be used to promote the development of robust risk assessment frameworks and sound risk management practices, contributing to a resilient and stable global insurance sector.

4.2 STRUCTURAL SHIFTS IN THE LIFE INSURANCE SECTOR

As highlighted in the 2023 GIMAR, the life insurance sector is experiencing significant structural shifts that have the potential to impact various aspects of the insurance industry. The IAIS has increasingly focused on two main topics, which are:

1. A greater allocation of capital to alternative assets; and
2. The growing use of cross-border asset-intensive reinsurance.

The shift to alternative investments is material for some life insurers. The use of asset-intensive reinsurance is also increasing, notably for capital-intensive liabilities. These trends emerged in the previous low yield environment but are continuing in the current environment of higher interest rates.

The IAIS will continue to monitor interest rate, liquidity and credit risks in a challenging macroeconomic environment.
The work conducted by the IAIS thus far highlights the following key points:

- Growing investments in alternative assets have the potential to increase exposure to risks related to liquidity, valuation, hidden leverage and credit, along with agency issues related to affiliated-party transactions that are sometimes associated with such investments.

- Cross-border asset-intensive reinsurance raises supervisory concerns in some markets, including knowledge gaps in non-domestic prudential frameworks, limited information exchange and conflicts of interest within corporate structures. Potential financial stability risks could encompass jurisdictional and reinsurer-level concentration risks, as well as potential herd behaviour amongst insurers.

**Allocation of capital to alternative assets**

Interim outcomes from the 2024 GME indicate a continued increase in asset allocation towards alternative investments. Some supervisors have indicated that insurers have increased their asset allocation toward CRE, either directly or indirectly through real estate investment funds, equity holdings in real estate companies, commercial mortgage-backed securities or commercial mortgage loans.

The shift to alternative investments is material for some life insurers and the use of asset-intensive reinsurance is also increasing.

**Cross-border asset-intensive insurance**

Regarding asset-intensive reinsurance, supervisors have noted an increased interest and activity in asset-intensive reinsurance in some markets. In regions with substantial life insurance sectors, asset-intensive reinsurance is receiving increased supervisory oversight; however, the impact and adoption of such reinsurance activities vary, reflecting the unique market dynamics and regulatory frameworks across the different regions.

Participating insurers in the IIM reported positive trends in the life sector, with increasing gross written premiums in 2023. The market outlook for asset-intensive products is influenced by a range of factors, including investment spread levels, regulatory changes and supervisory oversight. Higher interest rates and pension reforms are driving growth in bulk purchase annuity and pension risk transfer deals, which tend to be supported by asset-intensive reinsurance agreements. However, some respondents noted that lower spreads in continental Europe may temper the risk appetite for back book transactions.

In regions with low interest rates, primary insurers’ risk appetite for asset-intensive products is stated to be limited by underwriting costs. Some primary insurers consider asset-intensive reinsurance to be a valuable tool to free up capital and cede investment risk, and they expect its use to continue. The outlook for universal and whole life insurance varies, with growth expected in the Asia-Pacific and Americas regions, particularly for the high net worth segment. Some reinsurers view these markets as an opportunity, driven by client needs, with plans to support insurers in releasing capital associated with large back books.
Next steps

The IAIS plans to continue its efforts on this theme through the 2024 GME, with a focus on potential financial stability risks. The GME will collect further data on these trends, gather stakeholder input and incorporate updates from supervisory initiatives. The results will be published in the 2024 GIMAR. In addition, the IAIS will develop an Issues Paper specifically focused on structural shifts in the life insurance sector. The Issues Paper will seek to share practices used by IAIS members to supervise:

- The potential risks linked to a higher capital allocation to alternative assets. The paper will develop a principles-based classification of alternative assets for the purposes of this analysis.

- The potential risks, concerns and benefits associated with cross-border asset-intensive reinsurance, including types of transactions, features, risks and safeguards, and jurisdictional approaches to capital and collateral requirements, reserving and asset valuation.

The forthcoming Issues Paper will also assess whether the supervisory concerns raised in the 2023 and 2024 GME and GIMAR are adequately addressed in the IAIS supervisory material. The IAIS plans to launch a public consultation for the Issues Paper in the first half of 2025.

4.3 IAIS WORK ON OTHER HIGH PRIORITY RISKS

In the 2024 GME, supervisors also identified insurers’ cyber risk related to their operations and climate-related risk (notably physical risk) as high priority areas of supervisory focus.

Cyber operational risk

The IAIS has embarked on several initiatives to enhance the understanding of cyber resilience at the individual insurer level and the broader sector-wide level, including the 2023 GIMAR special topic (April 2023) and Issues Paper on Insurance Sector Operational Resilience (May 2023).

Stakeholder feedback on the 2023 Issues Paper encouraged the IAIS to take a proportionate, risk-focused and principles-based approach to any future work on operational resilience, with the objective to encourage consistency – while recognising jurisdictional differences – and underscoring the benefits of information-sharing, collaboration and cooperation. In this regard, the IAIS is currently developing operational resilience objectives to provide a sound and consistent foundation that can be used by insurance supervisors when developing and strengthening their supervisory approaches to support insurers’ operational resilience, including cyber resilience. These objectives, which will be published for public consultation in August, will be reinforced by a non-exhaustive collection of supervisory tools, including examples of supervisory practices or approaches.

The IAIS plans to publish an Issues Paper in 2025 on structural shifts in the life insurance sector.
The IAIS’ Supervisory Forum also serves as an important platform for IAIS members to exchange practical information and experiences related to the supervision of the insurance sector. In November 2023, two dedicated sessions were held on cyber risk, focusing on supervisory approaches and the challenges of overseeing cyber risk and cyber security.

**Climate-related risks**

Climate-related risks were featured in the [2021 GIMAR special topic edition](#) (September 2021) and have been a standing chapter in the annual GIMAR since 2022. An assessment of climate-related risks will appear again as a dedicated chapter in the 2024 GIMAR. In 2022, the IAIS performed a gap analysis of existing supervisory materials and, since 2023, the IAIS has been conducting a series of public consultations on new and updated supervisory and supporting materials relevant to climate risk. These consultations cover various aspects of climate risk, such as governance, risk management, internal controls, market conduct, scenario analysis, valuation of assets and liabilities, investments, enterprise risk management, supervisory review and reporting, public disclosure, macroprudential supervision and supervisory cooperation. The IAIS will also publish a GIMAR special topic on natural catastrophes (NatCat) protection gaps in 2025.
5. Next steps

The full-year 2024 GIMAR will be published in December and will elaborate on key potential systemic risk developments in the insurance sector, compare these to the banking sector and detail solvency, profitability and liquidity positions. It will also include a deep dive into the themes outlined in section 4 of this report, which will be discussed in more detail amongst global insurance supervisors in September.

The year-end GIMAR will go into more detail on key potential systemic risk developments in the insurance sector and include a deep dive into the identified themes.