

PRESS RELEASE
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IAIS Global Monitoring Exercise (GME) highlights key financial stability priorities for insurance supervisors

- *The 2021 Global Insurance Market Report (GIMAR) presents outcomes of the Global Monitoring Exercise (GME), the IAIS' framework for monitoring risks and trends in the global insurance sector and assessing the possible build-up of systemic risk.*
- *Insurers' solvency ratios continued to improve over 2020; however, vulnerabilities remain.*
- *Key risks and trends facing the global insurance sector identified in the GME are (1) low yield environment and the related growth in private equity ownership of insurers, (2) increased credit risk and (3) heightened cyber risk.*

Basel, Switzerland – The International Association of Insurance Supervisors (IAIS) today published its 2021 Global Market Insurance Report (GIMAR). The report covers the latest findings from the IAIS' targeted assessment of the impact of Covid-19 on the global insurance sector, the outcome of the first full Global Monitoring Exercise (GME) of potential systemic risks and key highlights of the global reinsurance market analysis.

“Through the GME, the IAIS monitors global insurance market trends and developments, detects the possible build-up of systemic risk and facilitates a collective discussion about the appropriate supervisory response at the sectoral and individual insurer level,” said Vicky Saporta, IAIS Executive Committee Chair. “The past two years of collected data reveal that the global insurance sector has remained both financially and operationally resilient. Yet the sector continues to face macroeconomic risks to its activities, three of which we focused upon: 1) the low yield environment and the related trend of growing private equity ownership of insurers, (2) increasing credit risk and (3) heightened cyber risk.”

Following last year's more targeted focus on the impact of Covid-19 on the global insurance sector, this year's GME puts a broader focus on potential systemic risk, as originally designed within the IAIS' Holistic Framework for systemic risk that was adopted in 2019. The Holistic Framework recognises that systemic risk in the global insurance sector may arise not only from the distress or disorderly failure of an individual insurer but also from the collective exposures and activities of insurers at a sector-wide level. Accordingly, the GME covers data from approximately 60 global insurers and aggregate sector-wide data from supervisors across the globe, covering over 90% of global written premiums. The GME helps ensure that the international coordination of supervisory responses to mitigate systemic risk in the insurance sector is grounded in evidence.

The strong performance of financial markets in the second half of 2020, supported by unprecedented fiscal and monetary stimuli, resulted in insurers' solvency ratios continuing to

improve at year-end 2020 compared to mid-2020. However, solvency ratios remained below the baseline of year-end 2019. Looking ahead, vulnerabilities remain because of uncertainties around the ongoing duration and impact of the Covid-19 pandemic and the timing of the unwinding of government and central bank support measures.

The IAIS' discussions among insurance supervisors from across the globe on the outcome of the GME focused on individual insurers that demonstrated an increasing trend in systemic risk scores and on three sector-wide macroprudential themes, namely:

- 1) The low interest rate environment, which continues to impact insurers' profitability and solvency. Supervisors are monitoring the challenge insurers face in maintaining their asset-liability matching without taking on significantly higher risk. In response to the low interest rate environment, insurers are changing business models. In particular, life insurers have implemented changes to their product mix, reduced guaranteed rates and shifted towards unit-linked business. Relatedly, the private equity industry is increasingly acquiring life insurance businesses as they seek steady capital inflows into their fund offerings.
- 2) Sovereign and corporate debt reached historically high levels, which could lead to credit spreads widening, defaults and rating changes. While most insurers are not taking excessive credit risk, some changes in insurer asset allocation can be observed, for instance, toward alternative investments that could lead to increased credit risk.
- 3) Cyber risk is increasing, driven by accelerating trends such as remote working, digitalisation, and the rising use of new technologies. As a result, cyber maturity level tests are increasingly incorporated into insurance supervision. Cyber risk may also impact insurers' liabilities through explicit cyber insurance underwriting, but also through non-affirmative cyber risk exposure in insurance contracts. Exposure is being limited through cyber exclusion clauses, policy limits and conservative cyber underwriting.

The IAIS will continue to actively monitor these global insurance market risks and trends as part of future GMEs.

The Global Insurance Market Report (GIMAR) can be found [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. For more information, please visit <http://www.iaisweb.org> and follow us on LinkedIn: [IAIS – International Association of Insurance Supervisors](#).