EMERGING RISKS IN THE INSURANCE SECTOR

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From fragmentation to emerging risks: a new framework for supervision

In recent years, geopolitical fragmentation has shifted from a tail risk to a defining feature of the global economy. Military conflicts, trade tensions and supply-chain disruptions are no longer just hypothetical scenarios, but persistent forces reshaping risks.

Geopolitical risks may take different forms, yet their common feature lies in the sustained uncertainty they generate. This uncertainty plays a fundamental role for economic agents, affecting their expectations, confidence and risk aversion. Simultaneously, it poses significant challenges for supervisors, who must adapt their frameworks to effectively account for these risks.

The materialisation of geopolitical risks can have far-reaching consequences, transmitting through the real economy and financial markets and, as an implication, affecting the insurance sector[1]. A simple example is energy prices. When energy prices rise, inflation increases. To contain inflation, central banks may adopt tighter monetary policies, which can result in stricter financial conditions, slower economic growth, and a decline in real household incomes. Such conditions affect insurers not solely through elevated risk premia, asset devaluations, or adjustments to the discount rate applied to liabilities. They may also give rise to higher-than-anticipated claims inflation and more surrenders, as policyholders experience financial strain or reallocate capital toward competing products. Broad market stresses can also affect market liquidity, with more opaque assets like private debt to be affected the most. Rising uncertainty in recent years has coincided with resilient economies, but it also exposes their vulnerabilities if uncertainty persists. Moreover, geopolitical events can intensify pressures where sectors depend on cross-border infrastructure and may also involve state-sponsored cyberattacks, which test the sector's resilience – from an operational as well as underwriting perspective.

Supervisors, therefore, need to integrate such risks into their operational framework. This, however, requires moving beyond traditional backward-looking risk measures and treating geopolitical risk as a systemic factor that can simultaneously affect markets, counterparties, operations, and liquidity. The revised Solvency II provides supervisors with some effective tools to navigate this situation. Prime examples are the integration of macroprudential considerations and analysis in the risk management, the investment activities of undertakings, and the strengthened role of liquidity plans. Embedding these elements results in a deeper forward-looking understanding of common exposures, interlinkages and potential amplification effects across the sector. At the same time, the new framework allows for more risk taking while reducing capital buffers, which can have an impact in times of uncertainty.

In addition to geopolitical risks, supervisors must also consider cyber risks and risks related to artificial intelligence (AI). These risks should not be seen as standalone risks, but as amplifiers of weaknesses in governance, outsourcing, data quality and operational resilience. Insurers rely on technology to run their core operations, underwrite risks, deliver services to policyholders and connect with partners. Higher levels of interconnectedness mean that cyber events can spread rapidly across entities. Concurrently, AI may also reinforce insurers' reliance on third-party providers and shared infrastructures, increasing concentration and dependency risks.

For supervisors, this implies a move towards holistic and forward-looking assessments. Expectations focus less on specific technologies and more on how digital tools interact with core functions, decision-making, and control frameworks. Boards are expected to integrate these interactions into their governance framework, rather than treating them as purely technical matters. Ultimately, viewing cyber risk and AI as amplifiers reinforces a key message: technology is not the risk. It does not alter fundamental prudential principles, but it can make existing weaknesses more visible, faster and more costly if left unaddressed.

A forward-looking supervisory approach is essential as emerging risks amplify vulnerabilities.

Finally, sound supervision, risk analysis and mitigation require access to relevant, high-quality data. The Solvency II reporting framework provides a robust basis for the insurance sector, but such frameworks need to evolve in light of emerging risks, while avoiding undue burden on industry. Recent initiatives at European level that aim to improve data sharing across EU financial services – such as the Better Data Sharing Regulation – should enable authorities to access, where justified, information already reported to other authorities. In this way, data exchanges would allow better use of already reported data, reduce duplication costs and streamline data flows.

1. *EIOPA 2024 insurance stress test exercise focused on the economic consequences of a re-intensification or prolongation of geopolitical tensions. The 2025 IORPs stress test had a similar focus.*

RITA LAURA D'ECCLESIA
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Emerging risks in insurance: implications for stability and regulation

In a global environment marked by geopolitical tensions and financial uncertainty, risks are emerging and spreading faster than before. Their management challenges both insurers and supervisory authorities. Where supervisors once focused on individual threats to financial soundness, today's environment requires insurers to withstand the simultaneous materialisation of geopolitical and macro-financial tensions, climate transition pressures, fast-moving technological change and cyber risks. To meet these challenges, supervisors and regulators must build on recent lessons, maintain close dialogue with market participants and academics, share experiences across countries and sectors, and strengthen information gathering.

In countries with high public debt and strong links between insurers and domestic sovereign and corporate markets, macro-financial risks translate directly into supervisory priorities. High interest-rate and spread volatility, combined with insurers' large sovereign exposures—as in Italy—make balance sheets highly sensitive to shifts in market sentiment. IVASS closely monitors interest-rate and spread risk, concentration risk arising from home-biased portfolios, and the potential for procyclical effects under market-consistent valuation. Macro-financial stress testing has become a central tool to assess the impact of sovereign and corporate credit deterioration, as well as liquidity shocks. In addition, IVASS focuses on insurers' liquidity preparedness, governance, and ALM strategies to ensure that macro-financial vulnerabilities are adequately captured in ORSA processes and risk-appetite frameworks. Overall, macro and market risks shape a supervisory agenda centred on resilience to sovereign-related shocks and on mitigating amplification channels within the domestic financial system.

Current data and modelling frameworks for climate and cyber risks remain incomplete and heterogeneous, limiting the reliability of forward-looking risk assessments. Europe is increasingly exposed to natural catastrophes, while the protection gap remains wide. This is pushing supervisors to intensify oversight of climate-related vulnerabilities, including the recalibration of natural catastrophe parameters in the Solvency II Standard Formula. For climate risks, gaps stem from scarce granular physical-risk data, limited historical loss experience, and uncertainties around transition pathways. The enhancement of Solvency II reporting requirements—expanding both the volume and granularity of information—moves in the right direction. Cyber-risk modelling is constrained by under-reporting, fast-evolving threat patterns, and the absence of consistent taxonomies. Both climate and cyber risks are inherently cross-border and cross-sectoral, capable of generating simultaneous shocks across the financial system. Addressing these risks requires supervisory convergence: supervisors have a key role in promoting shared datasets, harmonised taxonomies, and common risk metrics—such as standardised climate scenarios or cyber-incident reporting frameworks—to improve comparability, reduce information asymmetries, and support more robust risk management. This calls for smarter supervision rather than more regulation. A concrete example is the Systemic Cyber Incident Coordination Framework, which enhances cross-border coordination and information-sharing in major cyber incidents.

Existing risk models remain essential for ensuring analytical consistency and prudential discipline. However, they rely heavily on historical data and assume relatively stable correlations, making them less suited to an environment characterized by structural shifts, non-linear climate events, cyber contagion, and macro-financial volatility. Models remain useful for baseline risk management and for back-testing under real market conditions, but supervisors must recognise model uncertainty as a defining feature of today's risk landscape. This requires fostering methodological innovation, encouraging forward-looking, scenario-based approaches, and promoting stress tests that incorporate multiple interacting shocks.

Stronger data, smarter models and EU convergence are key to future-proof supervision.

At EU level, further convergence on forward-looking stress-testing practices, harmonised risk-data standards, and clearer guidance on emerging risks would help national supervisors address vulnerabilities in a more consistent and anticipatory manner. In this evolving landscape, resilience—supported by enhanced data quality, reliable modelling tools, and closer European coordination—remains the guiding principle for insurance supervision.

JON PIKE
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NAIC's macroprudential framework: evolving for purpose, evolving for the future

The National Association of Insurance Commissioners' (NAIC) macroprudential monitoring framework has evolved significantly since the 2007-2009 financial crisis, particularly through the development of the Solvency Modernization Initiative (SMI), Macroprudential Initiative (MPI) and the development of a formal macroprudential risk assessment system. Ultimately, the U.S. insurance regulatory framework identifies systemic vulnerabilities, not just firm solvency.

Following the financial crisis, state insurance regulators' initial efforts centered on the SMI, which reviewed five key areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues, as those were the key drivers of post-crisis reform. The SMI resulted in the development and adoption of cornerstones of the NAIC's modern macroprudential framework, including the Corporate Governance Annual Filing Model Act and Regulation, which requires insurers to make an annual confidential filing regarding their corporate governance policies as well as the Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act.

The MPI started in 2017 and was a logical continuation of the SMI, designed to identify potential enhancements in four key areas: liquidity risk, capital stress testing, recovery and resolution, and counterparty exposure and concentration. State insurance regulators adopted many reporting changes, primarily increasing the level of detail in product category reporting in the life annual statement, allowing regulators to better identify companies with material writings in product types that possess higher liquidity risk.

These efforts evolved into a formal Liquidity Stress Testing (LST) framework for large life insurers, which was finalized in 2021. The NAIC, along with individual state departments of insurance, conducted liquidity stress testing of several large firms in 2021 and 2022, which was helpful in developing a snapshot of the industry, and has continued annually.

Beyond the LST, the NAIC developed and implemented yearly macroprudential risk assessments for the industry as a whole. The reports include a risk dashboard that provides an overall assessment in each category (such as macroeconomic environment, underwriting, liquidity, and capital adequacy) as well as a deeper dive into each category, which includes relevant data and charts. The NAIC is currently working on a second Macroprudential Risk Assessment which will reflect data as of year-end 2024.

The U.S. insurance regulatory framework identifies systemic vulnerabilities, not just firm solvency.

In 2022 the NAIC also adopted a list of 13 considerations which largely focused on risks that have increased as a result of changes and increasing complexity in the insurer ownership landscape, including a growing presence of private equity. Focus on these considerations resulted in numerous changes in accounting, reporting and regulatory procedures in the NAIC's Financial Examiners Handbook and the Financial Analysis Handbook. For example, changes to the regulatory procedures included updated disclosures of ownership and control, affiliated investment management agreements, and structure and capital.

As risks continue to evolve, the NAIC and state regulators are constantly evaluating potential enhancements to close any gaps. To that end, in 2025 the NAIC launched the Risk-Based Capital (RBC) Model Governance (EX) Task Force to modernize the RBC framework and improve its responsiveness to emerging risks and market developments. Initial work has included drafting a set of guiding principles for RBC governance. These principles emphasize that RBC should evolve as emerging risks become detectable and material, recognizing that data and model validation challenges require flexible but disciplined governance.

Additionally, the Task Force has begun an in-depth gap analysis of the existing RBC framework, especially focusing on investment risk components, identifying inconsistencies in how certain asset exposures are captured. It aims to design a repeatable process for reviewing both retrospective outcomes (how RBC performed historically) and prospective needs. This process paves the way for incorporating emerging risk factors—such as private equity ownership structures, illiquid assets, and non-traditional investment vehicles—once reliable data and robust modeling approaches are validated.

In looking back on the shift of the macroprudential framework in the U.S. over the last 15 years, we see a system that is responsive to the pressing needs of the moment and the foreseeable future, and produces clear, useful tools and approaches for insurance supervisors and the insurance sector more broadly.

ROMAIN PASEROT
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Fostering global collaboration to address risks in the insurance sector

Structural shifts in the global life insurance market, along with the cross-border and cross-sector nature of cyber, AI and climate risks, call for strong international coordination. This article outlines how the IAIS enables cross-border supervisory coordination to address risks in the global insurance sector.

The global life insurance market is undergoing significant structural shifts, driven by increasing allocations to alternative assets (AA) and the rising adoption of asset-intensive reinsurance (AIR) agreements. While these developments may present opportunities, such as diversification, higher potential returns, and better risk pooling, they also expose insurers to risks such as risk concentration and financial instability, with regulatory arbitrage acting as a potential driver of these risks.

Regulatory arbitrage arises when differences in jurisdictional frameworks incentivise the transfer of risks or assets to jurisdictions with less stringent requirements. The IAIS Issues Paper on Structural Shifts in the Life Insurance Sector highlights how variations in reserve valuation, capital requirements, and investment flexibility across jurisdictions influence AIR transactions. While such differences often reflect local market conditions and public policy objectives, they can lead to unintended risks if not carefully managed.

To prevent regulatory arbitrage while supporting legitimate activities, international coordination should focus on:

- *Harmonising key standards:* Aligning reserve valuation principles and capital adequacy frameworks can reduce opportunities for arbitrage. The adoption of the Insurance Capital Standard (ICS) at the end of 2024 is an important step in this direction.
- *Supervisory recognition agreements:* Reciprocal recognition frameworks promote trust and consistency in cross-border reinsurance oversight.
- *Transparency and disclosure:* Enhanced public and supervisory disclosures, for example on reinsurance arrangements and alternative asset exposures can improve market discipline and reduce opacity.

Crucially, international risk transfer and long-term investment activities must not be stifled. Alternative assets, such as infrastructure projects and private credit, may support the real economy. Asset-intensive reinsurance may enable insurers to optimise capital and manage risks more effectively. Therefore, importantly, supervisors should adopt a proportional approach, tailoring oversight to the size, complexity and risk profile of insurers to balance innovation and risk mitigation.

Strong international cooperation is crucial to prevent arbitrage and enhance market resilience.

Cyber, artificial intelligence (AI) and climate-related risks are also inherently cross border, cross sectoral in nature, demanding coordinated micro and macroprudential responses alongside strong supervisory cooperation.

To address these challenges, the IAIS focuses on supporting its members to promote timely information-sharing mechanisms across jurisdictions and sectors, develop stress-testing frameworks that allow supervisors to assess insurers' resilience, and continuously monitor concentration risk, assessing insurers' exposure to risks, particularly where cyber or AI vulnerabilities are linked to critical infrastructure or reliance on a small number of technology providers.

These developments also underscore the need for enhanced supervisory coordination. Ongoing efforts, such as the IAIS's Global Monitoring Exercise (GME) and the use of supervisory colleges, provide a strong foundation for addressing emerging risks and data gaps. Expanding the scope of supervisory colleges to include discussions on macroprudential risks and potential contagion channels, as well as strengthening cross-sectoral supervisory collaboration, could further enhance global supervisory cooperation. The IAIS provides regular reports and input to the Financial Stability Board (FSB) on the key outcomes of the global insurance sector risk assessment and supervisory response, as conducted through the annual data-driven GME. The GME allows the IAIS to provide a strong empirical insurance sector perspective into international cross-sectoral discussions, ensuring the specificities of the insurance sector and its regulation are adequately represented.

Insurers should embed cyber and AI risks into their Enterprise Risk Management (ERM) frameworks, as outlined in the IAIS Insurance Core Principle (ICP) 16, ensuring that these risks are continuously identified, measured and managed. International standards are crucial for addressing the challenges posed by structural shifts in the life insurance sector and emerging risks. By harmonising key regulatory elements, enhancing data collection, and fostering collaboration across jurisdictions and sectors, supervisors can mitigate regulatory arbitrage while supporting legitimate risk transfer and investment activities. These efforts will not only strengthen the resilience of the insurance sector but also contribute to broader financial stability.

PIERRE DU ROSTU

Chief Executive Officer – AXA Digital Commercial Platform

Navigating a world of polycrisis: innovative ways to boost resilience

The AXA Future Risk Report depicts a world shaped by an exacerbated "polycrisis" where risks interact and amplify one another. On the climate front, natural catastrophes are shifting risk patterns and widening protection gaps in exposed regions. Geopolitically, rising instability - driven by conflicts, sanctions or state-sponsored threats - is disrupting supply chains and re-shuffling the global order. In the technological sphere, cyber-threats are increasing in frequency and sophistication, targeting highly digitalized businesses and critical infrastructures.

Therefore, this evolving and complex landscape necessitates moving beyond traditional risk management practices that rely solely on historical data and ex-post compensation. Instead, a more sophisticated, comprehensive, and forward-looking approach is required. This presents significant challenges for citizens, businesses as well as public authorities – many of whom are already adapting their behavior to address this new environment.

Corporates and public authorities are cognizant of the various hurdles to their traditional way to approach risks, requiring them to monitor risks in a more holistic way, so that attackers cannot exploit interconnected vulnerabilities.

AXA Digital Commercial Platform leverages integrated tech-tools to proactively manage risks.

At AXA, the Digital Commercial Platform (DCP) has been designed to address this shift. It combines a large array of services coupled with AI, geospatial analytics, cyber-security tools and real-time geopolitical intelligence. DCP integrates these tools into a unified risk-management platform, aiming to move beyond simply paying claims to actively predict and prevent losses, allowing much more proactive risk management. Tech-driven tools are already the present and the future of an enhanced risk management approach for corporates and public authorities but also for citizens.

AXA DCP aims to meet the needs of corporate customers and public authorities by delivering enhanced services. It connects risk insights with clients' needs to improve understanding and reduce exposures, thereby helping to mitigate potential losses in the case of events. For instance, satellite-based models can identify highly exposed assets to wildfire or flood and track events in real time. This supports targeted prevention such as vegetation management, retrofits, or relocation of highest-value assets.

Regarding cyber risk which corporate clients and public authorities are exposed to, DCP offers cyber threat screening tools that continuously monitor vulnerabilities, detect threats, and train staff to repel intrusions. Additionally, enriched external intelligence tracks conflict dynamics, hostile State activity, changes in regulations and sanctions. It helps clients mitigate their risk of disruption from geopolitical shocks by enabling them to map relationships with high-risk entities, reroute logistics, adjust supplier networks and anticipate policy shocks.

> AXA Digital Commercial Platform leverages integrated tech-tools to proactively manage risks.

The value of a strategy like the DCP lies in its integrated approach based on real-time data provided to its clients. This comprehensive view enables proactive measures before shocks crystallize, supporting targeted prevention and more risk assessments.

Enhanced resilience through prevention and adaptation

This added value offered by private actors such as DCP is aligned with the public authorities' objectives of enhanced economic and societal resilience. By combining their actions, national public authorities and innovative private companies can reinforce their mutual impact. On one hand, national authorities can create frameworks for climate risk management, encompassing rules such as land-use planning and building codes, or wide risk awareness campaigns. On the other hand, additional prevention and adaptation services promoted by private companies can support the collective effort towards a more resilient society.

Similarly, as recent regulatory developments in the cyber resilience front are strengthening companies' overall level of resilience, DCP accompanies its clients by providing cyber platforms and integrated prevention services, contributing to a more resilient economy.

Conclusion

The Future Risk Report highlights how climate events, geopolitical instability and cyber-threats will remain defining features of the risk landscape. The AXA Digital Commercial Platform illustrates a path to adapt to this reality by combining technology and expertise to help various stakeholders (e.g. corporates, public authorities) to anticipate, prevent and adapt to this evolving risk landscape. The core challenge is now to harness such capabilities in ways that strengthen resilience, and narrow protection gaps.

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Insights into new realities reshaping re/insurance risks

As the world we re/insure constantly evolves, new risks continuously emerge. By gaining early insights into risks that are already shaping our present – and will likely become even more significant in the future – businesses and regulators can reflect proactively and make smarter strategic choices. Below, we spotlight a select group of risk trends that are increasingly relevant for society and our industry.

Extreme heat: the insurance fallouts

2024 was the hottest year on record. Between June 2023 and April 2024, there were 76 heat waves in 90 countries. More than 6 billion people experienced at least 31 days of extreme heat.

Extreme heat poses a growing threat to the insurance industry, with property, specialty and L&H business most exposed. It increases the risk of electrical outages and wildfire risk, and can damage and cause disruption to transport, water and energy infrastructure. Heat-related health impacts can also increase medical, life, and workers' compensation claims, particularly among vulnerable and outdoor-working populations. Extreme heat can put additional stress on healthcare systems.

Deepfakes and disinformation: enabling insurance fraud

Deepfake technology can create convincing but false evidence like altered video footage or doctored documents, making it more challenging for insurers to verify the authenticity of claims. Digital technology including AI can facilitate varied forms of criminal activity, including submission of fraudulent insurance claims. Deepfakes can also be used for cybercrime. Along similar lines, disinformation – the deliberate spread of inaccurate information – is an evolving threat. Fake or misleading news can distort reality, complicating claim assessments and eroding trust both in institutions and potentially the insurance industry itself. AI can further facilitate widespread disinformation that can erode trust in the insurance industry and impact legal proceedings.

Ultra-processed foods (UPFs): health and liability risks

Since the 1980s, there have been multiple theories on what drives obesity. Of late, focus has moved to a novel culprit: UPFs. These are defined as foods that have been extensively altered using industrial techniques, often containing chemically-modified substances and artificial additives.

Consumption of UPFs is rising globally. Research shows associations between high UPF intake and elevated health risks, including obesity, type-2 diabetes, depression, cardiovascular disease and cancer, not to mention mortality. This new evidence, combined with increased public awareness and growing regulatory scrutiny could lead to a surge in lawsuits around inadequate warning and deceptive advertisement/labelling.

Extreme heat, deepfakes, ultra-processed foods and TPLF tell a story of a world in transformation.

Third-Party Litigation Funding (TPLF) as a structural risk

TPLF is an arrangement where an outside party finances some or all of a plaintiff's legal costs in return for a share of the proceeds from the case resolution. Experience from the U.S. shows that the extensive use of TPLF has affected the dynamics of the litigation system, increasing litigation costs, with knock-on effects on liability insurance. For re/insurance, TPLF contributes to increased claims severity and frequency, and this affects pricing and availability. 57% of the rise in liability claims in the US over the last decade was driven by non-economic factors.

TPLF is a growing practice in the EU. While TPLF facilitates access to justice to those who are otherwise not able to afford litigation costs, there are no sufficient safeguards to protect against abuse (e.g., funders collect significant awards and are paid before the claimants who are left with little, the funders are not liable for adverse cost, leaving claimants to bear the cost of the lawsuit if the claim is unsuccessful)

Implications for insurers and regulators

As risks are identified, re/insurers will naturally look for mitigants and aim to reflect new knowledge in business decisions, risk modelling, reserving and active management of long-tail uncertainty.

A lot of emphasis has been put in recent years on developing "risk based" regulation and supervision. This, in itself, would mean that the existing regulatory landscape is already allowing for appropriate and proportionate actions by industry and regulators alike.

In relation to TPLF, we believe that the planned 2028 review of the Representative Actions Directive is a good opportunity to introduce safeguards that balance access to justice with the need to protect claimants and ensure legal certainty.

More broadly, continuous dialogue between the industry and regulators will reinforce the resilience of re/insurers and the societies they serve as risks continue to emerge and evolve.

***Swiss Re shares risk insights on current and emerging topics through its website, providing fresh perspectives to support growth and innovation in the insurance industry.

OLIVIER PEQUEUX

Chief Financial Officer – Groupama

Adapting insurers' business models to a shifting environment

The acceleration of climate-related losses, macro-financial volatility and the growing weight of non-financial risks are reshaping insurers' risk models and strategic choices. As a diversified mutual insurer exposed to climate trends, Groupama has recently expanded the use of alternative risk-transfer instruments, improving market-based resilience.

Innovating with the First HailRisk Cat Bond: Key Lessons in Alternative Risk Transfer

In 2024-2026, Groupama strengthened its capital-markets risk-transfer strategy with several catastrophe bonds, including the first instrument globally dedicated exclusively to hail risk in France. This €120M "aggregate" bond provides annual protection against a peril whose frequency and severity have risen sharply. It complements earlier issuances covering storm risk.

One of the key lessons emerging from these transactions is the ability to mobilise granular, perils specific market capacity, allowing insurers to transfer risks that are increasingly difficult to place on traditional markets. The development of indemnity-based structures, now strongly encouraged by regulators, ensures that the protection purchased mirrors the insurer's actual loss experience, significantly reducing basis risk, which is especially relevant in a context where climate trends—such as the severe hailstorms that have recently hit France—generate annual loss patterns that differ from historical models.

Multiyear aggregate covers demonstrate how capital markets capacity can complement traditional reinsurance by providing stable protection even in years of elevated catastrophe activity. These instruments therefore do not replace conventional treaties but broaden the insurer's resilience toolkit.

Macroeconomic and market risks challenging insurers

From a global insurer's perspective, the macrofinancial environment is becoming increasingly complex, with several intertwined dynamics exerting structural pressure on business models.

In Europe, the interest-rate environment has largely normalized. Life insurers have well resisted the rapid transition from an abnormal negative rates environment, and the temporary bout of inflation, to a steepening yield curve, with the help of a resilient stock market and global growth.

Insurers adapt risk transfer and risk modelling in response to climate and market volatility.

A noticeable shift in investment frontiers is however taking place, marked by the growing weight of private credit and other illiquid instruments in insurers' portfolios. While such diversification can offer attractive risk return profiles, it also increases exposure to opacity, valuation uncertainty and procyclical behaviors. In an environment of tight credit spreads, this shift increases vulnerability to sudden spread widening triggered by exogenous shocks, amplifying balance-sheet sensitivity to market stress.

Sovereign risk also resurfaces: rising public financing needs and changing investor bases increase the probability of spread repricing, especially in fiscally or politically fragile countries.

Together, these forces place insurers at the crossroads of financial stability concerns and long term savings needs. It requires strengthened capital planning, agile asset liability management and a cautious approach, involving the integration of extreme market scenarios into strategic decisions.

Interactions between financial and non-financial risks

Climate pressure, cyber threats and rising social instability, linked to riot risks, increasingly interact with traditional market and credit exposures. This convergence is reshaping insurers' overall risk profiles, blurring the boundaries between economic shocks and operational, environmental or societal disruptions.

Cyber risks have become systemic: interconnected infrastructures, AI-enabled attacks and the concentration of digital service providers now create accumulation patterns comparable to financial-market stress scenarios. At the same time, equity markets are displaying elevated valuations also driven by technology and AI-related stocks, which reinforces the possibility of simultaneous shocks across digital and financial domains.

Fragmentation of global trade and geopolitical tensions can affect investment portfolios, generate market instability and propagate supply-chain disruptions. It adds strategic complexity, particularly in savings products.

In the face of those emerging risks, insurers need to refine risk management, by using richer data sets, embedding systemic-risk perspectives, and enhance cross-functional modelling capabilities.

The COVID crisis illustrates both the limits of traditional scenario analysis and the difficulties to implement this new approach: pre-pandemic stress tests largely focused on mortality and morbidity risks, underestimating the economic impact of shutdowns, while post-recovery scenarios failed to anticipate the inflationary surge triggered by the end of lockdown.