# INSURANCE IN A POLYCRISIS WORLD

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## Interconnected risks, common standards: The IAIS agenda

In a time of significant change and complexity, the role of insurance as a cornerstone of economic stability and societal resilience has never been more critical. This is a period widely described as a polycrisis, characterised by coupled shocks that amplify one another across markets, sectors, and borders. The IAIS's 2026 mid-year Global Insurance Market Report (GIMAR), published in July 2026, highlighted the increasing interconnectedness of risks, from macroeconomic pressures impacting life insurers' balance sheets to the implications of advances in AI and technology for insurers' cyber resilience. In such an environment, fragmentation is a growing challenge, bringing with it the risk of regulatory divergence.

Risks with a cross-border and cross-sector character, especially in cyber and AI, as well as those arising from structural shifts in the global life insurance market, demand a dynamic and forward-looking approach to insurance supervision. Within the IAIS, strong supervisory tools and a spirit of cooperation and trust across the global insurance supervisory community help to mitigate the risk of fragmentation.

As regards structural shifts in the life insurance sector - particularly increased investments in alternative assets such as private credit, as well as the growing use of asset intensive reinsurance (AIR) - the IAIS has been monitoring this closely. Since 2021, these developments have been captured as part of our Global Monitoring Exercise (GME), which forms the backbone of our risk assessment framework.

Our findings highlight several important trends. While the aggregate exposure of the life insurance sector to alternative assets remains modest, we are seeing rapid growth in some jurisdictions and among certain insurers. This shift is driven by the search for higher yields, diversification, illiquidity risk premiums and improved asset-liability matching. This asset class can be attractive to life insurers seeking stable, long-term cash flows to match their liabilities.

While these developments may present opportunities, alternative assets also can expose insurers to valuation uncertainty, illiquidity or complexity.

Considering the cross-border nature of these risks, robust global standards and supervisory cooperation are fundamental. The Insurance Capital Standard (ICS) is the common language for supervising internationally active insurance groups: a consolidated, group-wide capital standard that enables supervisors to discuss solvency in the same terms, promotes global convergence, encourages prudent risk management and improves transparency. It also helps home and host supervisors work together, evaluating group solvency using the same concepts and metrics.

The Holistic Framework for monitoring systemic risk, underpinned by its three key elements, the Global Monitoring Exercise (GME), an integrated set of enhanced macroprudential supervisory policy measures, and robust implementation assessment, provides a strong foundation for assessing and mitigating systemic risk in the global insurance sector.

Digital innovation, particularly the adoption of AI, is transforming the insurance sector, bringing both opportunities and challenges. The IAIS is well positioned for the changes that digital innovation is bringing to the sector. Through our GME, we have a well-established framework for analysing and responding to risks and trends in the global insurance sector. We have used this process to undertake analysis of cyber underwriting and the use of AI by insurers, and expanded our work on supervisory practices related to AI and operational resilience, publishing Application Papers and an AI question bank to support supervisors in their engagement with insurers on AI use cases. This year we are looking at cyber risks from frontier AI models. Frontier AI models pose new cyber risks and highlight the continued importance of operational resilience. The IAIS' Operational Resilience Working Group (ORWG) is exploring how patching processes may need to change as a result of developments with frontier AI models.

**Strong supervisory tools and a spirit of cooperation help to mitigate the risk of fragmentation.**

To conclude, international standards empower supervisors to respond to emerging risks, ensuring insurance markets remain fair, safe and stable for the benefit of policyholders and supporting financial stability. Over the past decade, the IAIS has built a strong global framework for cross-border supervisory convergence and collaboration, and for assessing and mitigating systemic risk. Our members are strongly committed to implementing these standards, supporting convergence in supervisory outcomes, and the IAIS remains committed to supporting supervisors to maintain resilience and protect policyholders in an uncertain environment.


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# Risk transfer and the U.S. regulatory response

The U.S. insurance market, especially the life and annuity sector, has experienced significant growth over the past 10 years of three distinct asset classes: private-equity ownership, "alternative" and illiquid asset exposure, and offshore asset-intensive reinsurance (AIR).

Private-equity-affiliated insurers now represent a notable share of the U.S. insurance market. Recent National Association of Insurance Commissioners (NAIC) analyses indicate that there are 139 private-equity-owned insurers, which hold hundreds of billions of dollars in invested assets. Relative to traditional life insurers, private-capital-sponsored firms tend to allocate more heavily to private credit, structured securities, asset-backed investments and other less-liquid holdings that offer incremental yield.

It is not only PE-backed insurers that are broadening their balance sheets, however, as many life insurers have expanded their invested assets from stocks and bonds to other forms of assets since the aftermath of the global financial crisis and a low-for-long interest rate environment.

One of the more visible trends is the growth of AIR. AIR often involves the transfer of life and annuity liabilities and their corresponding assets from U.S. insurers to affiliated offshore reinsurers. This movement can be attributed to an increase in the market for asset-intensive products, primarily retirement savings-related products like deferred annuities and pension risk transfers.

While all these strategies can provide economic benefits, improving returns and supporting retirement-product growth, they also introduce greater complexity in valuation, liquidity monitoring and risk management. **The challenge is to ensure risk is genuinely transferred and adequately capitalized**, not to prohibit such transfer. Supervisory processes and tools need to provide understanding of, and adequately capture, the risks associated with evolving insurer business and investment practices and increasingly bespoke and illiquid assets.

The response of U.S. state insurance regulators has centered on enhancing transparency, refining risk-based capital (RBC) measures and strengthening group supervision.

State insurance regulators have expanded their scrutiny of private credit, collateralized loan obligations, private letter ratings and affiliated investment structures. New analytical work by the NAIC's RBC Model Governance Task Force and RBC working groups is intended to ensure that RBC factors better reflect underlying economic risk while minimizing opportunities for capital arbitrage.

Another key development is Actuarial Guideline 55 (AG 55), which requires enhanced asset-adequacy testing for certain offshore life and annuity reinsurance transactions. AG 55 seeks to ensure that ceding-company actuaries can demonstrate that the assets supporting ceded reserves remain sufficient under adverse scenarios. The focus is on transparency, cash-flow testing and evidence that policyholder obligations remain protected even when the risks are transferred outside the United States.

To that end, this trend is not just domestic to the U.S., but one that supervisors across the globe are examining, not just internally, but through the International Association of Insurance Supervisors and other multilateral organizations. To address this, group supervision is evolving in parallel. Supervisors increasingly assess insurers, reinsurers and affiliated asset managers as part of an integrated enterprise rather than as standalone legal entities. Concerns around affiliated transactions, concentration risk, liquidity management and potential conflicts of interest are prompting a more holistic approach to oversight, requiring increased cross-border communication and collaboration between insurance supervisors.

The increase in AIR highlights the importance of having mechanisms in place to facilitate cross-border cooperation and collaboration amongst insurance supervisors in different jurisdictions. Int the U.S., covered agreements with the European Union and the United Kingdom and the NAIC's Qualified Jurisdiction (QJ) process help provide such mechanisms, ensuring strong regulatory processes and oversight are in place and reliable.

The challenge is to ensure risk is genuinely transferred and adequately capitalized.

While the vast majority of insurer investments remain with traditionally stable assets such as bonds, these shifts towards alternative assets and more complex ownership structures are expected to continue given aging demographics and ongoing demand for retirement savings products.

The supervisory response in the U.S. is increasingly targeted and data-driven: refining RBC treatment, improving asset transparency, strengthening actuarial review and enhancing group-wide supervision. The objective of state insurance regulators is not to constrain legitimate risk transfer or private capital participation, but to ensure that innovation, capital efficiency and policyholder protection continue to advance together.

PETRA HIELKEMA

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# Beyond single-risk thinking: polycrisis consideration for the insurance sector

As insurers and financial institutions navigate a prolonged period of economic uncertainty, geopolitical fragmentation, market volatility, and rapid technological change, risks are increasingly interacting and amplifying one another. These interactions create vulnerabilities spanning business models, balance sheets, and operational infrastructures. It is this interaction and amplification of risks – not simply their simultaneous presence – that characterises a polycrisis.

In this context, three areas warrant particular attention:

- insurers' growing exposure to private credit and other illiquid assets,
- the expansion of Asset Intensive Reinsurance (AIR) or funded reinsurance arrangements across markets and jurisdictions; and
- financial institutions' growing dependence on complex digital ecosystems and third-party providers (ICT risks).

The nature and immediacy of these risks differ. Private credit exposures remain manageable in aggregate, and use of AIR remains relatively limited in Europe, although its cross-border nature creates growing supervisory challenges. ICT and operational risks, by contrast, can disrupt multiple entities simultaneously and therefore represent the most immediate potential source of systemic operational stress.

**1. Private credit**

EIOPA's recently published factsheet shows that private credit accounted for around 5% of EEA (re)insurer's total assets at the end of 2025. While these investments can support diversification and liability matching, they require continued attention to valuation, liquidity, concentration and interconnectedness.

**2. Asset Intensive Reinsurance**

Asset-intensivereinsurance (AIR) or funded reinsurance can improve capital efficiency by transferring investment and insurance risks, providing capital relief and broadening access to investment opportunities. At the same time, AIR can increase counterparty exposures and insurers' links to financial markets, potentially amplifying procyclicality during periods of stress. AIR transactions can also create recapture risk, including operational, legal, and valuation challenges, particularly where assets are held through complex cross-border structures or under different regulatory regimes.

**Insurers' greatest risks arise from the interaction of risks across an interconnected system.**

Building on its July 2021 **Opinion on the use of risk mitigation techniques by insurance undertakings,** EIOPA is currently working with national supervisors on potential risks and supervisory expectations on AIR transactions.

**3. Digital ecosystems and third-party providers**

ICT risk has meanwhile evolved from a largely technical concern into a potential systemic threat. In today's interconnected financial ecosystem, the failure of a single ICT provider can disrupt critical services across multiple entities, sectors and jurisdictions.

The shift toward this new reality was evidenced in a pre-DORA analysis conducted by the European Supervisory Authorities (ESAs) in 2023. This high-level exercise identified approximately 15,000 ICT third-party providers (TPPs) directly serving EU financial entities, with around 9,000 of those supporting critical or important functions (CIF). The analysis also revealed that many of these services are non-substitutable, creating clear single points of systemic failure.

The development and first full year of application of the Digital Operational Resilience Act (DORA) have acted as a powerful diagnostic tool, revealing the extent of the financial sector's co-dependence on a limited number of technology giants and of the overall cyber security maturity of the financial sector. The ESAs have also established an Oversight Framework as foreseen under DORA, for those ICT providers deemed critical (CTPPs).

EIOPA has elevated DORA implementation to a Union-wide Strategic Supervisory Priority for 2026. The relevance of this agenda is reinforced by rapid advances in AI-enabled cyber capabilities, which may shorten the time between the identification and exploitation of vulnerabilities. ICT risk management must therefore evolve as fast as the capabilities it guards against.

Further supervisory analysis of the new data on the Register of Information and incident reporting, benchmarking it across sectors and years, will allow the supervisory community to get a better understanding of the actual risk and inform actions that should be taken to improve the overall resilience of entities and the EU financial sector.

**The way forward**

The hallmark of a polycrisis is not the presence of multiple risks, but their capacity to interact and magnify one another. For instance, decline in private credit valuations could pressure insurers' capital and liquidity; AIR could transmit that pressure across counterparties and jurisdictions; and an ICT incident could impair the systems needed to value assets, manage collateral or execute recapture plans. Building resilience in the years ahead will depend not only on understanding each risk, but also on anticipating how multiple shocks may interact, amplify, and propagate across the insurance sector.


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## Emerging insurance risks require better data and stronger supervision

European insurers remain resilient, but the sources of risk are evolving. Alongside traditional market and underwriting risks, supervisors are increasingly focusing on private credit and other illiquid assets, as well as on the complexity of cross-border group structures. While these developments support diversification and long-term investment, they also create risks that are not always fully visible through conventional solvency indicators and require more granular information and stronger supervisory cooperation.

Private credit has attracted increasing attention in recent years. EIOPA analysis based on Solvency II reporting shows that private assets represent around 11% of insurers' total assets at both solo and group level. Aggregate exposures do not currently point to a systemic concern. However, these figures conceal significant heterogeneity across undertakings and groups. A small number of large insurance groups account for approximately 37% of all private-asset investments, while concentration is particularly pronounced in private credit. These findings suggest that concentration risk may be a more relevant supervisory concern than the overall volume of exposures.

From a supervisory perspective, the key issue is not merely the size of private credit investments but the complexity of the associated risks. Illiquidity, valuation uncertainty, concentration towards specific sectors, borrowers or asset managers, and the interaction between investment and liability strategies may become particularly relevant during periods of market stress. For life insurers, additional challenges may arise if policyholder behaviour generates unexpected liquidity needs. Since 2021, IVASS has encouraged undertakings to strengthen governance, valuation methodologies, risk management frameworks and the application of the prudent person principle. Increasingly, supervisory attention focuses on firms' ability to understand and manage these risks rather than on headline exposure figures alone.

Effective supervision in this area depends on access to sufficiently granular information. Current reporting frameworks still present important limitations, particularly for investments held through funds, where information on underlying assets, issuer sectors and geographical exposures may not always be readily available. These data gaps make it more difficult to assess concentration, liquidity and interconnectedness risks consistently across Europe. Better transparency would enhance both firm-level supervision and the monitoring of potential vulnerabilities across the sector.

**Better data and stronger supervision are becoming as important as capital.**

The concentration of private credit exposures among a limited number of large groups also highlights the importance of effective group supervision. Insurance groups generate important diversification benefits and support efficient capital allocation across jurisdictions. At the same time, they create interconnections that are not always visible from a purely national perspective. Investment strategies, reinsurance arrangements, treasury functions and other key activities are increasingly managed at group level, while risks often materialise locally within individual entities.

In this context, supervisory colleges remain a cornerstone of effective supervision. Through information sharing, joint risk assessments and coordinated supervisory actions, home and host authorities can develop a common understanding of risks and identify vulnerabilities before they crystallise. As insurance business models become more integrated and increasingly transcend national borders, no single authority can fully assess all relevant risks in isolation. Effective supervision depends on both timely access to information and a shared view of emerging vulnerabilities across the group.

The experience gained from monitoring private credit provides a broader lesson for insurance supervision. In an increasingly interconnected financial system, risks may emerge through concentrations, interdependencies and common exposures that are not readily observable from balance-sheet information alone. Identifying such vulnerabilities requires supervisors to combine firm-specific assessments with a group-wide and cross-border perspective.

As insurance business models continue to evolve, the visibility of emerging risks will depend not only on capital metrics but also on supervisors' ability to access comparable data and cooperate across jurisdictions. Stronger supervisory colleges, closer home-host coordination and more granular reporting become essential building blocks of a forward-looking supervisory framework.

Better data and stronger supervisory cooperation should not be viewed as alternative solutions but as complementary pillars of effective supervision. Coordinated supervision provides the institutional framework, while granular information provides the tool to identify vulnerabilities early and address them consistently across Europe. In an increasingly complex insurance sector, both are becoming as important as capital itself.

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# Building resilience in a polycrisis: a re/insurance perspective

In August 2025, the insurance industry reflected on the Tianjin Port explosions, ten years after one of the largest man-made insured losses in history. The anniversary reminded us that catastrophes rarely remain confined to the event itself. An industrial accident disrupted global supply chains, generated claims across multiple jurisdictions and lines of business, and revealed hidden concentrations of risk that had previously gone unnoticed.

That is the essence of a polycrisis. Shocks no longer occur in isolation; they interact, amplify one another and cascade across increasingly interconnected economies. In such an environment, resilience is no longer simply about recovering from individual events. It is about strengthening the capacity of societies, economies and institutions to anticipate, absorb and adapt to interconnected shocks. Resilience itself is becoming a strategic objective—not because it replaces growth or competitiveness, but because both increasingly depend on it.

Insurers have long worked in this reality. Through risk modelling and claims analysis, they see how risks interact across sectors, jurisdictions and value chains. Risk models anticipate the next shock; claims explain the last one. Re/insurance claims can be a lesson in interconnectedness. They repeatedly show that the largest economic losses often arise not from the triggering event itself, but from the chain of consequences it sets in motion.

Climate resilience. Recent Swiss Re Institute sigma research shows insured natural catastrophe losses exceeding USD 100 billion annually for six consecutive years, increasingly driven by floods, severe convective storms and wildfires. Claims increasingly show that the largest economic consequences often arise beyond the flooded area itself. Disruption to transport, energy infrastructure and suppliers can extend business interruption far beyond the initial physical damage, illustrating how climate events propagate through interconnected systems. Building resilience means reducing risk through prevention and adaptation, as well as ensuring that the risks that remain can be effectively insured. Together, risk reduction and risk transfer strengthen the resilience of economies, businesses and communities.

Geoeconomic resilience. Geopolitical fragmentation is reshaping trade, investment and supply chains. The CRO Forum's Emerging Risk Radar 2026 likewise identifies geopolitical instability and supply-chain disruption as increasingly interconnected risks. Swiss Re's work on Emerging risks: hidden dependencies highlights that many organisations understand risks affecting their own assets, but far fewer understand the infrastructure and supplier networks on which they depend. Claims often reveal these hidden dependencies only after a disruption has occurred, showing that resilience begins with making them visible before the next shock.

Digital resilience. AI is accelerating investment in digital infrastructure while increasing dependence on a small number of cloud providers, energy networks and cyber resilience. Cyber risks illustrate the growing challenge of accumulation risk: an incident affecting a major cloud or managed service provider can generate correlated losses across thousands of organisations. Claims increasingly show that AI-enabled products blur the traditional boundaries between software and physical products. What begins as a technology issue can quickly become a product liability claim involving developers, manufacturers, distributors and other actors across the value chain. Technology is therefore reshaping not only risk, but also accountability.

Societal trust and liability resilience. Recent Swiss Re Claims Perspectives publications highlight litigation involving children's use of social media, illustrating how rapidly technological innovation can evolve into questions of duty of care, accountability and liability. At the same time, the growth of third-party litigation funding has the potential to result in enhanced claims inflation and legal uncertainty if left without appropriate transparency. As Insurance Europe's Reinsurance Advisory Board has argued, proportionate oversight is important to preserve a balanced and sustainable liability environment.

**Resilience begins with understanding interconnected risks. Re/insurance claims reveal connections.**

Europe is increasingly embedding resilience across its policy agenda. The Preparedness Union Strategy promotes an all-hazards, whole-of-government and whole-of-society approach, while the forthcoming European Integrated Framework for Climate Resilience and Risk Management is expected to strengthen the way climate risks are understood and managed across sectors.

In a polycrisis, resilience cannot eliminate risk. The better we understand how risks interact and materialise, the better equipped we will be to anticipate, absorb and recover from future shocks. Building resilience is therefore a shared endeavour. The insurance sector can contribute its risk expertise, practical experience and understanding of interconnected risks to support Europe's resilience journey.

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# Insurance in a polycrisis: diversification needed?

**The polycrisis**

In the polycrisis we are facing, precedents do not seem helpful, conventional wisdom does not seem to apply, and it seems that we can no longer take for granted many of the things that we used to. Shocks will hit us in unprecedented ways, and risks will materialise in unexpected manners. In such a situation, the resiliency of the economy and the financial system may best be achieved through diversification: by not putting all eggs in one basket and by avoiding choke-points. We may want to focus on vulnerabilities for risk management, and clarity of the regulatory perimeter ex ante.

**Diversification in the economy**

In the real economy, we need to have multiple sources of growth, multiple sources of procuring necessary inputs including supply chains and funding channels/sources. We should avoid choke-points as much as possible. It is desirable for the real economy to be able to fund itself not only through traditional channels but also through private credit, private equity and other forms.

**Implications of the increased use of AI**

Increased use of AI also leads to complications for judging investment opportunities and risk management. How much of the rise in AI-related stock prices is a bubbe? What is the overall impact of the use of AI for employment, potential growth, and inflation? Who will be the winners and losers? What is the efficiency gain that we can obtain from using AI? What are the risks associated with the use of AI? In trying to address these questions, we will probably need to listen to specialists, look at real life examples, and use our imagination. We probably need to diversify and hedge, consider worst cases, and have contingency plans in place.

**Diversification in the financial system**

We should welcome diversification of the financial system, such as alternative investment opportunities including private assets, alternative hedging possibilities including asset intensive reinsurance, and new entrants to the system, provided they can demonstrate sound risk management practices and governance. At the same time, the role of risk management may have become all the more important.

**Risk management**

It is true that in the face of growing private asset balances, asset intensive reinsurance, private equity funds acquiring reinsurance companies, and the increased use of AI and reliance on critical technology providers, we must consider the implications for liquidity risk, concentration risk, and conflicts of interest. However, we should also weight risks against the benefits, such as diversification, increased returns, and improved ALM matching. In addition, since extrapolation of historical data no longer seems to be the best way to prepare for what might be coming, we may need to make more use of stress testing and scenario analyses, while avoiding excessive burden in carrying out these exercises. We may need to use more qualitative judgements. Checking what kind of events could wipe out a financial institution's capital through reverse stress testing, and looking for signs of such events happening may have become an approach that is more useful.

**Supervisory approach**

Supervisors may need to become more comfortable with less reliance on quantitative calculations of risk metrics and more use of qualitative judgements. Supervisors should also welcome entry into the market by different types of financial institutions with different response patterns. What supervisors should not pursue is for everybody to react in the same way in the face of a shock. Banks and insurance companies may react differently to changes in interest rates. Similarly, financial institutions headquartered in different geographical locations should react differently to different regional shocks. Supervisors should not push financial institutions to respond to shocks in particular ways. From a macro perspective, supervisors may be faced with the unenviable task of having to balance the benefits of increased resilience through diversification from increases in private assets and asset intensive reinsurance against the implications for systemic risk from the potential increase in concentration risk and interconnectivity.

> Diversification and clarity over public intervention seems key in facing a polycrisis.

**Regulatory perimeter**

Regulators may need to clarify the outer boundaries of their responsibilities. Apart from the often raised point that treating insurance, a heavily regulated sector, the same as other types of NBFI is misleading, some part of what is being debated under the heading of NBFI clearly falls outside of such boundary. However, the calls for more transparency in the overall NBFI area may give the impression that regulators will be held responsible if there are any issues anywhere in the NBFI space. Given that we are likely to be hit by unprecedented shocks, and that risks are likely to materialise in one way or another, we may want to clarify ex ante that losses and failures which do not lead to financial instability will be left without any public sector intervention.