

Structural shifts in life insurance sector: IAIS insights

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The global life insurance market is undergoing significant structural shifts, driven particularly by increased investments in alternative assets such as private credit and the growth of asset-intensive reinsurance.

The IAIS has been closely monitoring these trends since 2021. In the past year, this work produced two outputs: (i) a sector-wide thematic focus on private credit in the 2025 Global Monitoring Exercise (GME); and (ii) an issues paper analysing the drivers and potential risks of these structural shifts and supervisory responses.

Traditionally, life insurers have relied heavily, but not exclusively, on high-quality bonds and equities to ensure liquidity and maintain value for meeting long-term liabilities. However, prolonged low interest rates and the search for higher returns and diversification have driven insurers to increase their investments in alternative assets, such as private equity (PE), real estate, infrastructure, hedge funds and private debt. This trend has continued even as interest rates have risen, reflecting broader factors such as an increased demand for insurance products with retirement savings features, driven by demographic shifts in advanced economies and broader economic trends.

Private credit is a growing subsector of alternative assets with distinctive characteristics. Private credit offers life insurers potential benefits such as 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. It can support the real economy through long-term financing for sectors like infrastructure, while potentially offering insurers higher yields and lender-friendly protections.

While these alternative assets bring benefits, they also come with risks, such as valuation uncertainty, illiquidity and complexity, which require robust risk management and careful alignment with insurers' liabilities. Additional concerns include hidden leverage, conflicts of interest, credit rating reliability, capital considerations, and information gaps.

The implications of these structural shifts also depend on how they may evolve under stress and whether they could give rise to systemic risk.

From a system-wide perspective, current exposures of the global insurance sector to alternative assets and AIR remain limited, so the near-term risk to global financial stability is relatively small. However, rapid growth in these areas could increase risks over time. Potential transmission channels may include insurers' forced asset liquidations in stress, including those to meet liquidity needs from policyholder behavior, a rapid withdrawal of insurers from lending markets, and mass AIR recaptures which could lead to financial market disruption by triggering market-wide rebalancing of investment portfolios by insurers.

Growing interconnectedness of life insurers with other financial institutions through alternative asset markets creates potential contagion risks. Risks may be amplified by the use of leverage in alternative asset

market, and the concentration of AIR transactions backed by significant holdings of alternative assets in a small number of insurers in a few jurisdictions.

Responding to these evolving risks requires continued monitoring, analysis and effective supervisory responses.

The IAIS's Global Monitoring Exercise provides a strong foundation for addressing emerging risks and data gaps. 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.

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. Recognising the interconnectedness of these risks within the broader financial sector, the IAIS is working closely with the International Monetary Fund (IMF) and FSB to strengthen the insurance supervisory perspective in policy debates and to align cross-sectoral responses to systemic risks.

Looking ahead, the IAIS has several initiatives planned to address systemic risks. This year the IAIS will enhance its systemic risk analyses of structural shifts in the life insurance sector, including private credit, to strengthen global monitoring and improve understanding of emerging risks and vulnerabilities. At the same time, we are developing application papers on alternative assets and AIR to provide practical guidance to supervisors and strengthen supervisory practices. In addition, the IAIS will review the Insurance Core Principles (ICPs) to ensure that our standards remain robust and any identified gaps are addressed.