GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

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GFIA response to draft Issues Paper on structural shifts in the life insurance sector

1 General comments on the Issues Paper on structural shifts in the life insurance sector

GFIA welcomes the opportunity to provide feedback on the IAIS draft Issues Paper on structural shifts in the life insurance sector. GFIA appreciates the IAIS' continued engagement with stakeholders on evolving trends in investment and reinsurance within the life insurance industry.

GFIA recognises the increasing use of alternative assets and asset-intensive reinsurance (AIR) among life insurers in response to long-term macroeconomic, demographic, and capital market trends. These developments have contributed to enhanced risk management and greater capacity to meet societal protection needs, particularly in the area of retirement and long-term savings. However, GFIA believes that supervisory response should remain proportionate, risk-based and take into account jurisdictional differences.

In the case of alternative assets (AA), GFIA is not convinced of the need to develop classification. Aggregate exposures remain limited and concentrated in a few jurisdictions. A one-size-fits-all supervisory approach does not reflect market realities or established risk-management practices, and GFIA cautions against overly broad definitions that may capture well-understood and prudently managed assets.

Regarding AIR, GFIA notes that its growing use reflects insurers' need to access capital and manage long-duration liabilities effectively, particularly in the context of ageing populations and capital markets' structural changes. While supervisory attention is warranted, existing frameworks in key jurisdictions already provide robust oversight. GFIA recommends that the IAIS acknowledge these practices and avoid prescriptive guidance that could inadvertently hinder innovation or global risk-sharing.

Overall, GFIA supports the IAIS' view that current trends do not present material financial stability risks and encourages the IAIS to continue its engagement with industry while ensuring that any future supervisory developments are informed by evidence, impact assessments, and recognition of jurisdictional diversity.

2 General comments on section 1 Executive summary

GFIA requests changes to the wording regarding the use of internal models to calculate capital requirements. The executive summary states:

"Concerning capital requirements, approaches vary, with some jurisdictions using factor-based or formulaic methods, while others allow more discretion (eg internal models) to calibrate capital requirements to the risk profile of the insurer. Jurisdictions also differ in their level of prescriptiveness regarding investment flexibility."

However, (partial) internal models are not about discretion. The purpose is to adequately/accurately reflect the risk profile in the solvency assessment when a standard formula approach is not appropriate. In regimes like in the EU, Switzerland, and the UK, it is not formulaic exclusively or internal models, but a coexistence.

- Formulaic for simpler business models or where the formulaic (or standard model) approach works well; and
- Internal models and partial internal models for more complex groups, or for instance to adequately capture the complexity of Nat Cat portfolios.

GFIA recommends amending paragraph 2 to include a reference to the demographic demands that are driving an increased demand for innovative long-term products designed for retirement savings. Acknowledging the growing

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demand provides additional context that is useful to understand when considering the increased use of AIR and alternative assets.

GFIA requests adding “The main risks for supervisors to monitor are linked to….” There are currently supervisory tools in place to monitor and reduce the risks mentioned.

The paper also suggests that the investment trends towards alternative assets represent a departure from traditional “high-quality” investments in bonds and equities. This inaccurately implies a reduction in asset quality. In practice, insurers continue to prioritise high-quality investments, and the shift towards alternative assets represents prudent diversification strategies aimed at enhancing risk-adjusted returns and managing long-term liabilities effectively. However, it is important to note that some jurisdictions maintain specific investment restrictions. For example, in Canada, the Insurance Companies Act (ICA) outlines certain limitations on certain investments.

3 General comments on section 2 Introduction

GFIA believes the paper should characterise the trends of increased allocation to alternative assets and rising adoption of cross-border AIR as an evolution in insurers’ asset–liability management (ALM) strategies. While the paper attributes these trends in part to a “prolonged low interest rate environment” which led for a search for “higher yields and a move away from capital intensive products,” it must be recognised that insurers’ focus on matching illiquid liabilities with long-dated, higher-yielding assets has persisted even in the current higher-rate climate. During the low-rate period, many insurers recognised that overly liquid investments were not efficiently matching the illiquidity of policyholder liabilities. As a result, insurers have been increasingly capturing the illiquidity premium to the benefit of policyholders, helping to close protection gaps by enhancing annuity and retirement products.

4 General comments on section 3 Increased allocation to alternative assets in life insurers’ portfolios

GFIA welcomes the progress made by this issues paper in understanding and analysing the current situation regarding "structural shifts in the life insurance sector".

As noted in this section, the data indicates that the current trend of increased alternative investments by life insurers is in a few jurisdictions and does not represent a significant exposure to the insurance sector as a whole.

Therefore, when continuing to collect and analyse information in the future, it would be desirable to take a more balanced approach, such as conducting detailed studies separately for the relevant jurisdictions and insurance companies, and using data already reported for the sector as a whole.

IAIS data indicate that current median allocations are just 2% for securitisations and 7% for loans and mortgages, with the trend largely driven by a limited number of groups. GFIA therefore calls for a balanced interpretation.

GFIA believes the real risks associated with alternative assets are in their use by nonexperts. The goal should not be to limit what is not necessarily well understood but rather to understand, adapt, and ensure appropriate risk management for the evolving investment universe. Supervisory attention should focus on the tools needed to understand, assess, and monitor insurers within the supervisor’s purview, and the frameworks that will ensure adequate risk management and risk governance to minimise conflicts of interest.

5 Comments on section 3.1 Background

It is necessary to assess a portfolio holistically – both assets and liabilities – to fully understand the risk that holding illiquid assets may pose to an insurer.

GFIA recommends amending this section to acknowledge characteristics of life insurers’ liabilities. Characteristics of the liabilities may vary by jurisdictions – some jurisdictions allow products to have more liquidity demands than others – but it is important to acknowledge that there are large jurisdictions (ie the US) where life insurers’ liabilities are long-term and relatively illiquid, which mitigates some risk when illiquid assets are part of a prudent asset-liability management (ALM) programme.

GFIA also notes that supervisory differences in practices do not mean that one approach is deficient compared to the other. Supervisory differences may reflect many jurisdictional-specific factors that would make a "one-sized fits all" approach to supervising "alternative" assets inappropriate. For example, in Jurisdiction A, an asset may be illiquid due to a lack of secondary markets, hard to value, and relatively novel. However, in Jurisdiction B, the same asset may have a long history of use in the jurisdiction (not novel), be relatively liquid due to robust secondary markets, etc. These differences raise questions about the desirability of trying to achieve "comparability" in insurers' financial statements. Instead, they point to a need to maintain appropriate jurisdictional deference.

Recommended edit:

"Supervisory practices vary, along with the products offered and the market conditions, which can affect insurers' investments. Some consider exposures to alternative assets within the context of overall risk management and do not impose specific restrictions, while others impose strict limits on certain alternative asset classes due to concerns around transparency and valuation."

The paper appears to criticise the diversity of approaches because it reduces "comparability" in insurers financial statements. While convergence is an understandable goal, the reality is that even if a uniform approach was taken with alternative assets, significant differences in valuation approaches, capital requirements, and the degree of prudence embedded in solvency standards will remain. The development of the global capital standards underlined the idea that it is necessary to understand key differences in approaches – versus trying to impose an identical standard in each jurisdiction. There will always be jurisdictional differences in how standards are implemented. Understanding the differences and why they exist is imperative.

6 Comments on section 3.2 Global trends in life insurers' investment in alternative assets

IAIS analysis

While GFIA recognises that some insurers have increased their allocations to "alternative assets", the analysis presented in the report does not fully support the narrative presented.

Section 3.2 starts by explaining that the trend of increasing allocation to "alternative assets" is difficult to quantify, it then goes on to clearly state that "external data shows that the supply of alternative assets and allocations to these have increased over the past two decades".

Furthermore, the median allocations presented on page 10 do not demonstrate significant increases in median allocation in absolute terms. Median allocations of 1% to securitisations, unlisted equity and infrastructure appear very moderate. The allocation to loans and mortgages at 7% is potentially an outlier but no data is presented to indicate what the historical allocation was.

In this respect, the industry welcomes the statement that allocations to "alterative assets" do not pose financial stability concerns. The IAIS findings indicate that the IAIS has time to conduct further analysis prior to implementing any policy reforms, if needed.

As the IAIS considers additional data analysis, GFIA recommends prioritising monitoring and coordination. More mature analysis of how allocations have developed over time would be beneficial.

Non-banking financial institution (NBFI) definition

As outlined by the IAIS, when discussing the NBFI sector, it is important to recognise the fundamental business model differences and the regulatory oversight of each sector. As a highly-regulated and supervised sector, GFIA does not support the inclusion of insurance in the wider NBFI-discussions.

GFIA's views on the inclusion of insurance in the NBFI sector can be found in its publication "Insurance: A unique sector" (here).

GFIA appreciates the recognition that, in contrast to banks or other NBFIs, life insurers long-term liabilities have longer-maturity dates that do not demand immediate liquidity. It is important to consider the nature of the liabilities associated with the assets, because the maturity period of the liability can impact the overall risk posed by the use of assets that may be less liquid than a traditional corporate bond.

7 Comments on section 3.3 A principles-based classification

GFIA welcomes the IAIS's commitment to a principles-based approach for monitoring insurers' exposures, yet the benefit of classifying asset classes between "traditional" and "non-traditional" remains unclear, notably with the paper acknowledging that what is "traditional" in one jurisdiction may not be traditional in another. The separation is imprecise and economically uninformative: it bundles together instruments whose risk profiles and economic characteristics in a look-through view differ markedly. Treating this heterogeneous set as a single risk bucket risks obscuring meaningful distinctions and could lead to supervisory responses that are not proportionate. This is especially the case as exposures must be assessed based in the context of an insurer's overall balance sheet, risk management sophistication and liability structure.

Building on this, GFIA has some concerns that the "indicative mapping" could be misleading because some of the assets listed would not meet two or three of the principles, depending on the jurisdiction. Creating a list takes the definition out of the realm of principles-based and makes it one-sized fits all. GFIA recommends clarifying that it is up to individual jurisdictions to determine what qualifies as "alternative assets".

GFIA agrees that the notion of proportionality is crucial. It is noted that many jurisdictions have no established definitions or supervisory requirements for alternative assets. The increase in alternative investments is not a phenomenon unique to insurance companies, but a trend seen throughout the real economy.

Therefore, should the importance of alternative investments increase in the insurance sector in the future, it would be desirable to have a principles-based approach that differentiates asset classes by actual risk characteristics (credit rating, liquidity profile, or structure) to provide regulators with more nuanced insights.

Proportionality also demands evaluating the impact of alternative assets relative to the types of liabilities in a portfolio.

3.3.3 Mapping of alternative assets to the principles: As noted in Figures 2 and 3, even within the same asset class, each brand and investment case has diverse characteristics. Therefore, when discussing "alternative assets" (or further subdividing or expanding the list), it should be noted that a one-size-fits-all risk assessment based on asset class alone may result in a large discrepancy from the actual situation. GFIA recommends keeping the indicative list under continuous review and defining exposure thresholds that prompt detailed assessments.

GFIA has several concerns with the proposed definition of alternative assets:

- The definition is exceedingly broad. Based on the definition as currently drafted, an asset needs to satisfy just one of the three criteria (illiquidity, complexity, or valuation uncertainty) to be classified as an alternative asset. This definition would include investments such as mortgages and real estate that have been a longstanding component of many insurers' investment portfolio.
- The term "alternative" suffers from legacy bias. Historically, the term has referred to higher risk investments such as hedge funds or distressed debt. In contrast, the modern market for non-public fixed income (often labelled "alternative") now exceeds $40 trillion, with a large share of these instruments rated investment grade and aligning well with long-dated insurance liabilities. The "alternative" labelling may inappropriately tarnish high quality, well-supervised, mainstream investments.
- Alternative assets, as defined in the paper, have markedly different risk profiles. A tranche of a collateralised loan obligation (CLO), for example, has significantly different risk than real estate or private credit

origination. "Alternative assets" are found across the risk/return profile, and GFIA believes that supervisory measures should be tailored to the risk profile, not the "alternative" label.

- The labelling of "alternative" may fail to account for evolutions in market and supervisory practices, thus permanently attaching the optic of novelty and riskiness to safe, mainstream investments.
- As the paper itself illustrates in figure 2 in section 3.3.3, the categorisation of assets as "alternative" has a jurisdictional flavour. Different supervisory authorities have different degrees of experience with different types of investments, and jurisdiction-specific market dynamics result in different liquidity or valuation profiles.
- The labelling of "alternative assets" may lead to supervisory measures being shaped by labelling rather than risk characteristics, which could inadvertently suggest that "alternative" investments are inherently more risky or less protective for policyholders – a view not supported by GFIA.
- The proposed changes to the Insurance Core Principles (ICPs) in section 6 include a handful of references to alternative assets, lending credence to this concern.

8 Comments on section 3.4 Benefits associated with alternative assets

The inclusion of the discussion of the potential benefits of investing in "alternative assets" is supported.

GFIA would also like to encourage discussion of other potential benefits of investing in alternative assets including diversifying the sources of credit, providing an inflation hedge, addressing the pension protection gap, and improved prices for consumers.

9 Comments on section 3.5 Supervisory concerns and areas of attention

The comments on time horizon under section 3.5.4 are not very clear. In particular, it is unclear whether there would be supervisory concern if a life insurer with 10-20 year expected liability cashflows made investments with shorter time horizons.

3.5.7 Increased complexities around the management of alternative assets: The size and proportion of investments in alternative assets vary from insurer to insurer, and the importance of risks also varies. Therefore, regarding the description of Board members, GFIA believes that it would be more effective to describe in a manner that allows a wide range of management depending on the importance and risk of the alternative assets in each company.

GFIA believes the concerns outlined in this section are already appropriately addressed by certain jurisdictions' supervisory regimes and recognition of this should be explicit.

10 Comments on section 3.6 Macroeconomic considerations

N/A

11 General comments on section 4 Rising adoption of AIR in the life insurance sector

The use of AIR is concentrated in a small number of large insurers in a few jurisdictions, and private equity (PE) involvement may also be concentrated in certain large PE funds. Therefore, when continuing to collect and analyse information in the future, it would be desirable to take a balanced approach, such as conducting detailed studies separately for the relevant jurisdictions and insurance companies, and using already reported data for the sector as a whole.

GFIA believes this section, and the paper more broadly, does not adequately discuss the market forces that are contributing to the growth in AIR, including the overall globalisation of reinsurance that regulators have overseen. For the recent growth in AIR, the paper adeptly highlights that demographic trends and consumer demand for asset intensive products are among the drivers. Given the protection gaps societies are facing, these factors are expected to grow and drive greater need for the type of solutions life insurers can provide, which should be acknowledged and discussed in the paper.

GFIA notes that AIR is enabling insurers to achieve the following objectives, that should be acknowledged in the opening framing of section 4, such as:

- Providing an effective mechanism for accessing third-party capital that insurers need to address protection gaps, particularly as public equity has retreated from certain lines of business;
- Enhancing insurer's ability to manage risks related to certain liabilities (eg align valuation of assets and liabilities under a market-based solvency framework);
- Providing the ability to free up capital that can be used to support other strategic priorities;
- Allowing the exit from certain markets that no longer align with strategic priorities of the insurer; and
- Accessing greater investment flexibility and/or expertise enabling insurers to capture illiquidity premiums that can both enhance returns and pricing of coverage for consumers.

AIR also supports global risk diversification through cross-border reinsurance, which enhances the resilience of local insurance markets and enables capital to flow efficiently to where it is most needed. This contributes to greater availability and affordability of long-term protection products, particularly in aging societies. It is important to avoid regulatory fragmentation that could hinder these benefits, such as mandatory collateral requirements or asset localisation measures.

12 Comments on section 4.1 Understanding AIR

This section, and paper more broadly, appears to focus narrowly on the use of AIR for in-force block transactions. For completeness, we recommend providing context on the use of AIR for flow business (ie reinsurance of a portion of new sales after the effective date of a reinsurance treaty), which is enabling insurers to share benefits AIR provides to consumers in real time through improved pricing.

13 Comments on section 4.2 Jurisdictional approaches to reserving, capital requirement and investment flexibility

In Table 2, it is inappropriate to reference internal models in the column named "Discretionary". Please see the response to Q2 addressing this concern in the Executive Summary.

Additionally, the reference to investment flexibility should be updated. Investments are partly constrained by the standard formula/model and internal models themselves, as asset and liability management (ALM) mismatches and some asset charges are penalising. They are often complemented by investment guidelines.

Comment on 4.2.5. Quantitative Analysis

Given the simplified nature of the exercise, GFIA agrees with the paper's note that the use of the exercise results should be limited to the conclusion that the results demonstrate that different jurisdictional approaches can lead to quantitative differences.

GFIA believes section 4.2 is narrowly scoped and implicitly suggests reserving, capital, and investment requirements are the main drivers of AIR. While regulatory requirements certainly play a role, AIR transactions are bespoke and the universe of factors that inform insurer business decisions is broader. In addition, supervisors employ a wider universe of tools to ensure risks are identified and understood that can inform AIR activity. GFIA believes section 4.2 should include a discussion on other steps supervisors are taking to ensure policyholders are protected and appropriate outcomes are achieved on an outcome basis, including maintaining insurer solvency through robust prudential oversight.

14 Comments on section 4.3 Supervisory concerns and responses

N/A

15 General comments on section 5 Macroprudential and financial stability considerations arising from structural shifts in life insurance

The paper acknowledges that there is currently limited global financial stability risk stemming from AIR and exposure to alternative assets. While supervisory concerns are legitimate, GFIA believes they remain localised and are appropriately addressed by existing supervisory frameworks.

As highlighted in the paper, the structural shifts are highly concentrated, and there should be recognition of the responses from the jurisdictions for which the concentration applies. Specifically, these jurisdictions have worked to modernise their frameworks to explicitly address this evolution. Instead of issuing prescriptive guidance, GFIA recommends further monitoring of the supervisory frameworks and enhancements in those jurisdictions, assessing the adequacy of ongoing efforts.

16 Comments on section 5.1 Macroprudential considerations

GFIA has some concerns about relying so heavily on a potential “market-wide liability driven liquidity event” as evidence of a mass recapture risk on AIR. The likelihood of this occurring – and the impact it could pose – varies significantly by jurisdiction. GFIA does not object to supervisors examining the potential for such events, however, given the disparity in impact across jurisdictions, is this more of a regional risk that should be addressed by national authorities or regional supervisors.

17 Comments on section 5.2 Interconnectedness with the broader market

N/A

18 Comments on section 5.3 Current financial stability risks and the future

GFIA appreciates the conclusion that the current exposure to alternative assets and AIR in the global insurance sector poses a limited risk to financial stability.

GFIA appreciates the IAIS’ recognition that the risk alternative assets and AIR present to global financial stability is limited and that supervisors are actively collaborating and taking action to understand potential risk and ensure they are regulated appropriately. With respect to the discussion in this section, GFIA is concerned with the assertion that increased allocation to alternative assets and the use of AIR is a negative or inherently “risky”. The structural shifts present both risks and opportunities and both the industry and supervisors are actively employing and enhancing tools to understand and manage risks associated with these trends.

19 General comments on section 6 Review of the IAIS supervisory material

GFIA believes existing frameworks and/or planned enhancements appropriately address the issues, risks and concerns noted throughout the paper.

A key element of the strength and credibility of the ICPs lies in their stability over time. Any proposed changes should be supported by clear evidence of need and be subject to robust cost-benefit assessments, particularly regarding the potential impact on the availability and pricing of long-term life insurance products. Stability in the supervisory framework enables insurers to plan and invest in long-term commitments confidently.

20 Comments on section 6.1 Purpose of the analysis

N/A

21 Comments on section 6.2 Scope and Methodology of the Analysis

N/A

22 Comments on section 6.3 Potential areas of enhancement in the IAIS supervisory and/or supporting material

GFIA agrees that the ICPs are designed to broadly encompass the various risks that could potentially arise from alternative assets and AIR. As such, GFIA recommends against amending the ICPs.

Regulation and supervision should be risk-based, according to the characteristics of the business, and support the industry's innovation and ingenuity.

Regarding "Sidecars" of "Potential areas of enhancement" in ICP13, GFIA would like to confirm the intent of the reference to property and casualty.

23 General comments on section 7 Conclusion

GFIA recommends including a reference that acknowledges that demographic changes are contributing to increased demand in asset-intensive retirement savings products, which has also driven an increase in asset intensive reinsurance. While these changes are not the sole reason for the increase in AIR, they are a contributing factor.

GFIA also encourages the IAIS to maintain direct engagement with the broader insurance industry to ensure all relevant perspectives are considered in assessing the drivers behind these developments.

24 General comments on section 8 Next steps

N/A

25 General comments on section 9 Annex 1: Survey on alternative assets to IAIS members

N/A

26 General comments on section 10 Annex 2: Solvency frameworks of various jurisdictions

N/A

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 member associations and 3 observer association the interests of insurers and reinsurers in 68 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.