

Global Financial Fragmentation

Implications for the insurance and reinsurance industries

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Geneva Association

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Contents

Foreword	5
Executive summary	6
1. Introduction	8
1.1 Defining global financial fragmentation	9
1.2 Why financial fragmentation matters for insurance and reinsurance	11
1.3 Relationship to previous Geneva Association research	12
1.4 Structure of the report	12
2. The geoeconomics of financial fragmentation	13
2.1 International trade and financial market fragmentation	15
2.2 Geopolitical tension and capital flow realignment	15
2.3 The evolving international monetary system	19
2.4 Nascent alternative international payment and settlement systems	21
2.5 Regulatory and institutional divergence	22
3. Potential impact on international insurance and reinsurance markets	24
3.1 Channel 1: Cross-border diversification and international insurance markets	26
3.2 Channel 2: Risk transfer and global reinsurance networks	28
3.3 Channel 3: Portfolio allocation and investment strategy	29
3.4 Channel 4: Liquidity, duration, and balance-sheet dynamics	30
3.5 Understanding the interactions between the channels	31
4. Quantitative modelling framework	33
4.1 Model architecture	34
4.2 From geoeconomic drivers to modelled scenarios	37
4.3 Illustrative simulation results	37
5. Strategic industry responses and public policy considerations	45
5.1 Strategic responses of re/insurers	46
5.2 Policymakers: Balancing economic resilience and efficiency	48
6. Conclusion	50
References	52

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Foreword

The path to global economic integration is not linear. It evolves in response to changing political priorities, shifting patterns of power, and unexpected crises. Today, geopolitical considerations are increasingly reshaping economic and financial relationships and challenging the international economic order that has prevailed since World War II.

The world is not retreating from global finance overnight. Rather, there are growing signs of financial fragmentation. The share of central bank foreign-exchange reserves held in US dollars is declining. Foreign direct investment is shifting towards geopolitically aligned countries. The direction is clear: investment and financial flows are becoming increasingly influenced by geopolitical considerations.

Our 2025 report on geoeconomic fragmentation examined how shifts in global trade and supply chains are impacting the insurance industry. This study builds on that foundation by exploring the implications of financial fragmentation for insurers. Financial fragmentation makes it more difficult and more expensive to transfer risks and to move capital across geographies. It reduces access to cross-border reinsurance, makes international risk-sharing less efficient, and reduces flexibility in insurers' balance sheets. And these effects could become more significant under a scenario of wide financial-market stress.

In this context, preparation is more important than prediction. Insurers and reinsurers need to reconfigure risk-transfer approaches, adapt capital structures, reposition investment strategies, and strengthen liquidity and balance-sheet resilience. For policymakers and regulators, it is essential to maintain cross-border supervisory cooperation, safeguard payment and settlement infrastructure, and strengthen dialogue more broadly with the industry. This will enable the insurance industry to continue helping economies withstand shocks in an increasingly uncertain world.



Jad Ariss
Managing Director

Executive summary

Geoeconomic fragmentation is now slowly extending into finance, driven by regulatory divergence, increased use of sanctions, and shifts in capital allocation.

Geoeconomic fragmentation – the growing influence of geopolitical considerations on economic relations – is reshaping the global economy. As earlier Geneva Association analysis noted, this has so far been most visible in more restrictive trade in both intermediate and final goods, as well as shifts in foreign direct investment as supply chains are reconfigured. The dynamic is now extending further into finance, albeit slowly. Regulatory divergence, the wider use of sanctions, changes to payment and settlement infrastructure, and shifts in capital allocation are all contributing to financial fragmentation, which weakens cross-border integration in capital markets and financial intermediation.

Geopolitical considerations are playing a larger role in reserve currency allocation, trade invoicing, and regulatory alignment.

Although the US dollar remains the dominant international currency, geopolitical considerations are playing a larger role in reserve allocation, trade invoicing, and regulatory alignment. Financial orders have shifted before, but a transition to a more fragmented system could prove especially challenging given two other prevailing trends: increased financial leverage, including on sovereign balance sheets, and the growing complexity of modern capital markets. In particular, the expansion of market-based finance, greater use of alternative assets, and increasing reliance on collateralised and derivative-based transactions have created new channels through which market stress can propagate across balance sheets. For re/insurers – whose business models rely on international diversification, cross-border risk transfer, integrated investment markets, and dependable liquidity channels – these developments make financial fragmentation strategically significant.

The evidence points to a structural change in the financial architecture rather than a temporary disturbance that will eventually unwind.

Building on the 2025 Geneva Association report *Insurance in a Fragmented World Economy*, this study develops a quantitative framework to examine the implications of financial fragmentation for the insurance sector. The framework links three core elements of the insurance system: reinsurance capacity allocation across jurisdictions, primary insurers' balance-sheet management, and the behaviour of asset prices, interest rates, and market liquidity. In this setting, financial fragmentation enters as a series of frictions affecting capital mobility, the cost and availability of reinsurance, and asset portfolio allocation.

This approach makes it possible to trace and quantify how changes in the geometry of financial fragmentation impact re/insurers' balance sheets. On the liability side, weaker cross-border diversification and less effective reinsurance increase retained risk, raise net claims volatility, and reduce the efficiency of global risk transfer. On the asset side, greater home bias in investments, higher hedging costs, lower market liquidity, and more constrained portfolio adjustment reduce diversification benefits and increase exposure to local interest-rate and credit-spread movements. The modelling framework is especially valuable in showing how these channels interact rather than operate in isolation.

The analysis of three selected scenarios shows how the impact of financial fragmentation depends significantly on its breadth and whether it is accompanied by market stress. Under a **targeted fragmentation scenario ('Segmentation')**, the principal effect

is a selective withdrawal of reinsurance capacity from geopolitically distant markets. The immediate consequences are localised increases in reinsurance prices, weaker recoverability, and somewhat higher retained risk in affected jurisdictions, while the broader system remains largely intact. Balance-sheet effects are therefore concentrated rather than systemic: underwriting becomes less efficient where capacity is withdrawn, but capital and liquidity pressures elsewhere remain limited.

Under a **broader fragmentation scenario ('Reallocation')**, geopolitical rivalry has far-reaching effects on the configuration of financial intermediation. The key issue is no longer only the loss of risk-absorbing capacity in one part of the system but the reorganisation of global capacity across country blocs. Reinsurance and investment flows shift towards politically aligned markets, cross-border diversification becomes less effective, and insurers' capital becomes less fungible at the group level. The result is a more pervasive weakening of balance-sheet efficiency: retained exposures rise more broadly, reinsurance recoverables become a less reliable stabiliser, asset portfolios become more concentrated, and the mismatch between the location of liabilities and the availability of capital becomes more pronounced. However, even broad-based splintering in capital flows and the resulting decline in the global integration of financial markets and systems would have manageable, if undesirable, consequences for re/insurers.

Scenario analysis suggests financial fragmentation makes cross-border reinsurance more costly or difficult to access and impedes optimal risk sharing. The impact on re/insurers would be most severe if financial fragmentation accompanied major asset market stress.

More severe outcomes arise in a **disorderly fragmentation scenario ('Amplification')**, where structural segmentation coincides with a broader financial market shock. In this case, fragmentation acts less as a standalone source of loss than as an amplifier of stress. Higher interest rates and wider credit spreads reduce asset values as policy surrender incentives, margin calls, collateral demands, and funding needs increase. If liquidity buffers prove insufficient, insurers may be forced to liquidate assets in shallower markets, further weakening valuations and potentially straining their solvency positions. The impairment of cross-border adjustment mechanisms is central: capital, collateral,

and reinsurance capacity become less mobile precisely when they are most needed.

The future path for financial fragmentation is highly uncertain. Increasingly, the evidence points to a structural change in the financial architecture rather than a temporary disturbance that will eventually unwind. As a result, international re/insurers must adapt by reconsidering reinsurance and capital structures, investment strategies, liquidity management, and governance arrangements. This includes pre-positioning capital within certain jurisdictions and reconfiguring their international operations. More generally, re/insurers should stress test their balance sheets beyond financial variables to include sanctions regimes, reinsurance enforceability, and diversification failure under fragmentation scenarios.

Insurance markets are likely to remain viable in a more fragmented world, but they may become less efficient, more regionalised, and more vulnerable to financial strain.

Policymakers, for their part, face the task of strengthening domestic resilience without unduly weakening the cross-border risk-sharing, supervisory cooperation, and financial infrastructure on which the efficiency of international insurance markets depends. International insurance markets are likely to remain viable in a more fragmented world, but they may become less efficient, more regionalised, and more vulnerable to episodes of financial strain unless firms and authorities adjust to preserve resilience while safeguarding the core benefits of international integration.

1

Introduction



Introduction

This report examines the macro-financial drivers of financial fragmentation and the potential impacts of a less integrated international financial system on re/insurers.

An earlier Geneva Association report outlined the potential impact of deglobalisation on the insurance industry.¹ It argued that global events and geopolitical upheavals, from the COVID-19 pandemic to the US-China trade conflict and the Russia-Ukraine war, have prompted a shift away from free trade and globally integrated supply chains in favour of greater national security and localisation. The formation of a new US government in 2025 and the subsequent escalation in trade barriers have reinforced the backlash against globalisation and international economic integration.²

Concerns persist that the world is on the cusp of a major reconfiguration in trade and finance.

So far, the implications for the world economy have been relatively modest. GDP growth has remained robust, belying concern that the sharp increase in tariffs on the trade of goods between selected countries would disrupt production and hit real incomes. However, the latest conflict in the Middle East could yet interrupt energy and supply chains and seriously weaken global economic prospects. Even if geopolitical tensions do not escalate further, concerns persist that the world is on the cusp of a major reconfiguration in trade and finance – especially if restrictions are broadened to include services, and associated capital/investment flows lead to a more regionalised international financial system.

1.1 Defining global financial fragmentation

Conceptually, geoeconomic fragmentation refers to the process whereby economic relations become increasingly shaped by geopolitical considerations.³ Trade, financial, and regulatory fragmentation can be understood as separate but potentially interconnected forms of this broader geoeconomic fragmentation. While analytically distinct, they often reinforce one another through sanctions, trade restrictions, investment screening, standards divergence, and other policy measures (Figure 1.1).

An escalation in tariffs and other measures affecting trade disrupts cross-border commerce and may encourage firms and governments to reconfigure supply chains. As trade barriers rise, regulatory fragmentation may intensify through export controls, sanctions, investment screening, subsidies, and divergent standards. These measures may, in turn, contribute to financial fragmentation by limiting capital and investment flows, weakening the incentives for cross-border finance, and making trade harder to fund and settle. The result is a cycle that potentially reinforces itself in which geopolitical tensions and policy divergence split trade, capital, and production networks into discrete country blocs.⁴

As trade barriers rise, regulatory fragmentation may intensify through export controls, sanctions, investment screening, subsidies, and divergent standards.

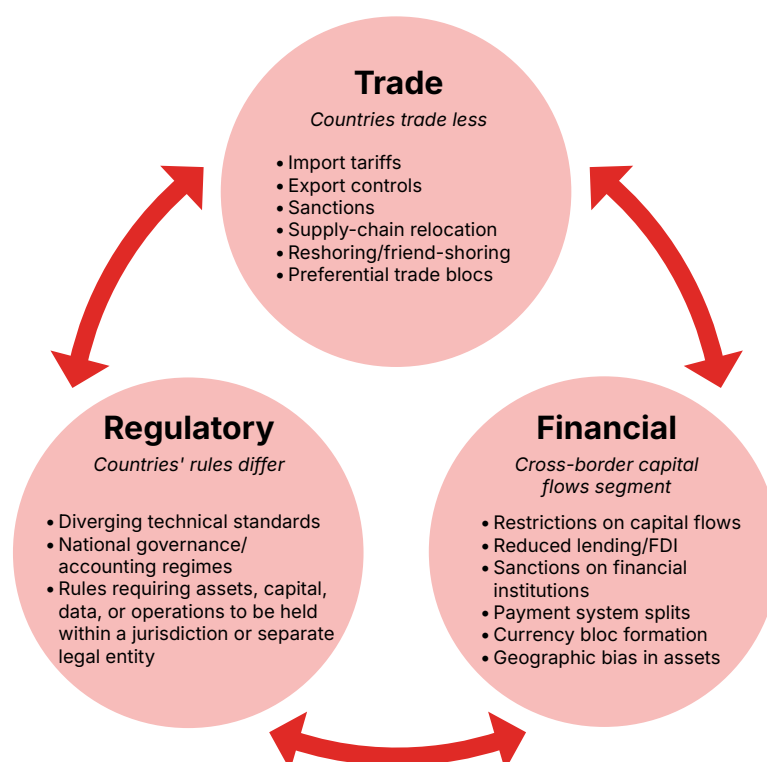
¹ Schanz 2025.

² There have been opposing forces, however. Multinational corporations remain committed to global supply chains, and their flexibility in reshaping them partly explains the relatively small impact of tariffs to date. Beyond the US, countries have continued to push for trade liberalisation, as the recent EU trade deals attest. European Commission 2026.

³ Literally, fragmentation means to break up or fall to pieces. It comes from the Latin *fragmentum*, meaning a portion or piece of something. There is no universal definition of the term in economics literature. The focus here is how geopolitical forces impact market integration for goods, services, and capital across countries. See discussion in Müller and Kerényi 2024.

⁴ This cycle is seen clearly through technological fragmentation, in which trade barriers disrupt technology supply chains, divergent regulations create incompatible standards and governance regimes, and financial restrictions limit cross-border investment and technology diffusion. Together, these forces encourage the emergence of separate technological ecosystems with reduced interoperability and greater strategic competition.

FIGURE 1.1: FORMS OF GEOECONOMIC FRAGMENTATION



Source: Geneva Association

Financial fragmentation concerns the weakening of cross-border integration in capital markets and financial intermediation in response to geopolitical shifts. More broadly, it translates into a departure from the benchmark model of fully integrated international capital markets. In that highly stylised world, capital flows freely across borders in search of the highest risk-adjusted return. One global risk-free interest rate anchors asset pricing, and cross-country differences in returns reflect only systematic (i.e. non-diversifiable) risk premia.

Over recent decades, the global economy moved closer to the integrated benchmark. The question now is whether that process has stalled or even started to reverse.

Of course, in practice, financial markets do not operate seamlessly; they are segmented by regulation, institutional design, information frictions, political constraints, and dominant currency regimes. Over recent decades, the global economy moved closer to the integrated benchmark. The question now is whether that process has stalled or even started to reverse.

Financial fragmentation is not a single policy or market outcome. In practice, it can emerge through several overlapping mechanisms that affect the movement of capital, risk, collateral, payments, and financial services across jurisdictions. These mechanisms differ in both form and intensity, and isolating their effects is challenging.⁵ Some are explicitly policy-driven, including regulatory restrictions on cross-border financial activity, sanctions, capital controls, or localisation requirements. Others arise indirectly through the development of jurisdictions' financial systems, changes in market behaviour – such as shifts in investor preferences away from politically distant jurisdictions – reduced willingness to rely on foreign counterparties, or concerns about the resilience of international payment and settlement infrastructure.

Increased financial fragmentation also need not imply the collapse of global finance. The future pathways are myriad, depending on the underlying drivers and the fungibility of existing international financial architecture. For example, financial flows could become increasingly influenced by political alignment, sanctions regimes, security considerations, and regulatory compatibility without a major rupture. Likewise, payment systems, reserve allocation, reinsurance relationships, and capital flows may evolve toward partially distinct blocs rather than a single, fully integrated system.

5 Claessens 2019.

1.2 Why financial fragmentation matters for insurance and reinsurance

Goeconomic fragmentation has so far largely manifested as more restrictive trade in goods (both final and intermediate) and associated shifts in foreign direct investment as supply chains have been reconfigured. The financial fallout on the re/insurance sector has been relatively modest, partly because the macroeconomic effects of trade fragmentation have so far also been limited. Protectionist policies have led more to the rerouting of supply chains than to the absolute decoupling of trade, limiting the impact on the frequency and severity of insurance claims.⁶

Goeconomic fragmentation has so far largely manifested as more restrictive trade in goods and associated shifts in foreign direct investment, with limited impact on the re/insurance sector.

Indeed, trade fragmentation opens business opportunities for some insurers. Most obviously, political risk and cyber insurance may see increased demand as multinational companies move from treating geopolitical exposure as episodic to embedding it permanently within risk-management frameworks.⁷ Geopolitical realignment could also catalyse new insurable risk categories. For example, the push for energy independence could spur demand for specialised engineering insurance, while industrial policy initiatives, including the US CHIPS and Science Act, European sovereignty investment programs, and rising defence spending, are generating substantial new property and infrastructure exposures.⁸

If trade barriers are extended to include financial services, and cross-border capital flows become more constrained, the implications for re/insurers will be considerably greater.

However, if trade barriers were extended to include financial services, and cross-border capital flows became more constrained, the implications for re/insurers would be considerably greater. A more regionalised international financial system, characterised by segmented capital markets, payment systems, and reserve assets, would interact with two other prevailing trends: increased financial leverage, including on sovereign balance

sheets, and the growing complexity of modern capital markets. In particular, the expansion of market-based finance, the increasing use of alternative assets, and the greater reliance on collateralised and derivative-based transactions have created new channels through which financial market stress can propagate. For re/insurers, whose business models depend on long-term investment portfolios, cross-border risk transfer, and effective liquidity management, these developments increase the potential for financial fragmentation to amplify balance-sheet pressures.

While most insurance policies are typically not written across borders, insurance is inherently a global business. International carriers – especially reinsurers – rely on their ability to diversify risks across policyholders from different countries, deploy capital flexibly across jurisdictions, and manage exposures through globally diverse financial markets. Even domestically focused insurers count on internationally integrated capital markets to invest policyholder funds, manage asset duration and credit exposures, and access reinsurance capacity to lay off unwanted risks. They may also rely on international investors to source their own debt and equity capital to support their balance sheets beyond the technical reserves they build up to pay future claims.

International re/insurers – rely on their ability to diversify risks across countries, deploy capital flexibly across jurisdictions, and manage exposures through globally diverse financial markets.

This is not just a theoretical concern. Besides the Geneva Association, several insurers have identified geopolitical shifts as a first-order strategic issue for the sector. For example, a recent report by Allianz highlighted how moves towards a more fragmented global economy are making risk environments more complex, challenging cross-border business models, and weakening traditional diversification benefits.⁹ Insurance supervisors also perceive the potential impact of goeconomic fragmentation on financial markets to be in the medium-to-high range, albeit most individual risks are viewed as having a medium-to-low impact (Figure 1.2).¹⁰

6 According to a recent study, seven out of ten firms have taken steps to adapt since the recent trade tensions began, including sourcing from new suppliers (63%) and rerouting through third markets (57%). [Subran et al. 2026](#).

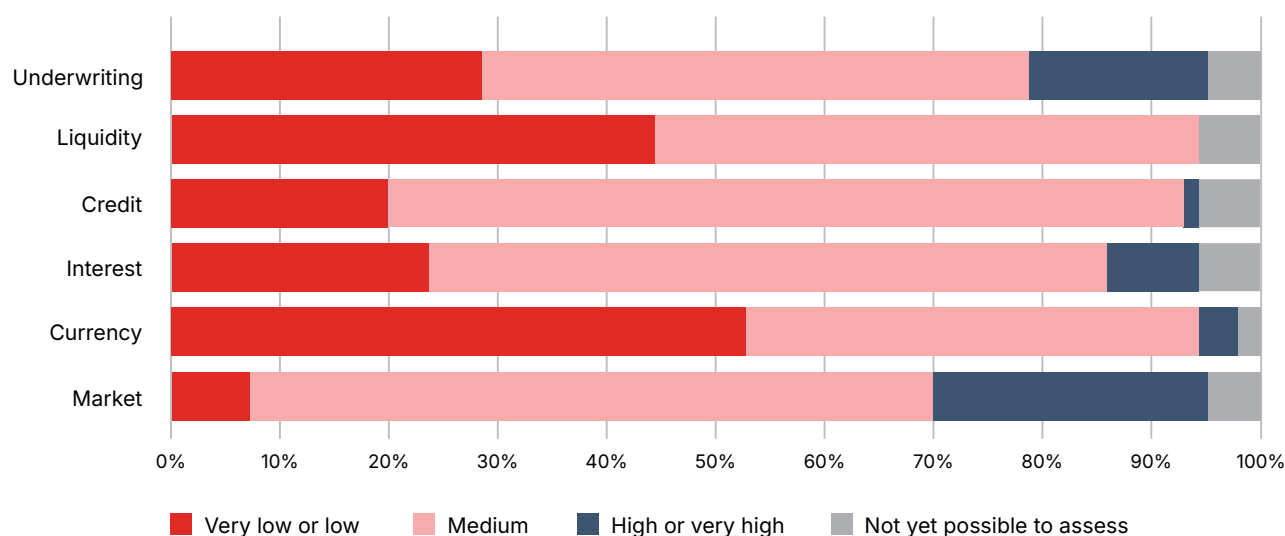
7 [Allianz 2026](#).

8 [Allianz 2026](#).

9 [Allianz 2026](#).

10 [IAIS 2025a](#).

FIGURE 1.2: SUPERVISORY PERCEPTIONS OF THE RISKS ASSOCIATED WITH GEOECONOMIC FRAGMENTATION (% OF SURVEY RESPONDENTS)



Note: Based on a sample of 35 national insurance supervisors. Survey responses are weighted by insurance market size.

Source: IAIS¹¹

1.3 Relationship to previous Geneva Association research

This report builds on the Geneva Association's earlier work on geoeconomic fragmentation, particularly in the use of scenario analysis. That earlier paper mapped three pathways of rising severity: gradual regionalisation, escalating fragmentation, and full bifurcation of the global economy into antagonistic blocs. Like that analysis, this study treats fragmentation as a continuum, not a binary shift from globalisation to autarky.

The present analysis narrows the lens to financial and re/insurance markets. Trade and financial fragmentation are connected, but they need not evolve at the same pace. Trade flows can be redirected more readily than the underlying financial infrastructure underpinning global payments, settlement, reserve management, and risk transfer. Because modern finance remains deeply embedded in US-led institutions and contractual networks, a sudden breakdown of the existing international financial architecture is less plausible than a gradual increase in financial frictions.

The scenarios in this study therefore adapt the earlier geoeconomic framework to investigate increasing degrees of financial fragmentation, from targeted restrictions to the broader regionalisation of financial markets and disorderly fragmentation with market stress. They deliberately exclude complete financial autarky or a collapse of the international monetary system. Such outcomes are not impossible, but they sit in the extreme tail of the distribution of potential outcomes and are outside the study's focus.

1.4 Structure of the report

This report first examines the macro-financial drivers of financial fragmentation, including changes in cross-border capital flows and payment systems. It then asks how a less integrated international financial system could affect re/insurers' balance sheets, liquidity, and investment allocation. Specifically, it develops a small analytical model and uses scenario analysis to assess three related questions: which transmission channels matter most for the re/insurance sector; how large the potential effects could be under plausible fragmentation pathways; and under what conditions financial fragmentation could materially impair efficient risk transfer. On that basis, the report discusses the associated strategic, policy, and regulatory issues facing the insurance sector should financial fragmentation pressures intensify, before offering some concluding remarks.

11 IAIS 2025a.

2

The geoeconomics of financial fragmentation



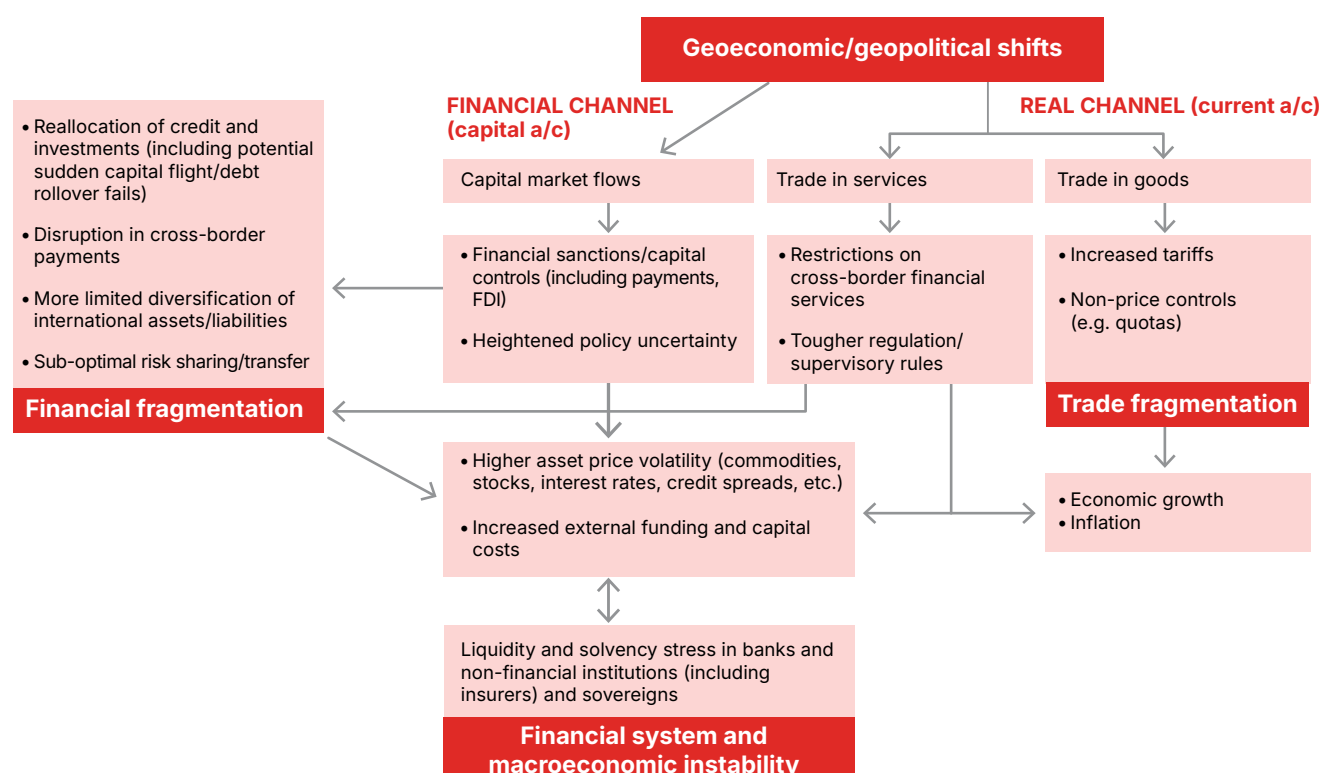
The geoeconomics of financial fragmentation

Governments are increasingly leveraging financial institutions and infrastructures, as well as market access, as instruments of power and statecraft.

Once characterised by deepening integration, expanding cross-border capital flows, and increasingly interconnected financial markets, the global financial system is now showing signs of increased fragmentation shaped by strategic rivalry.¹² Rising geopolitical tensions, economic security concerns, and the strategic

use of financial networks have prompted states to reassess their participation in global finance.¹³ Viewed through a geoeconomic lens, this shift highlights how governments are increasingly leveraging financial institutions and infrastructures, as well as market access, as instruments of power and statecraft.

FIGURE 2.1: GEOECONOMIC FRAGMENTATION AND MACROECONOMIC STABILITY



Source: Adapted from IMF 2023

¹² Schanz 2025.

¹³ Lipsky 2026.

2.1 International trade and financial market fragmentation

Global trade and financial markets are deeply connected. Any import or export of goods and services implies a currency (capital flow) transaction in the opposite direction.¹⁴ However, international trade patterns can be associated with different configurations of associated finance depending on institutional, geopolitical, and market conditions.

Although trade and financial markets are closely connected, fragmentation in one does not automatically imply fragmentation in the other. Tariffs and other trade barriers may increase while international capital continues to flow relatively freely. Financial fragmentation becomes more economically significant when geopolitical tensions begin to impede cross-border capital allocation, financial intermediation, and payment systems. In those circumstances, international risk-sharing becomes less effective, financing costs increase, and capital is allocated less efficiently across countries.

Financial fragmentation becomes more economically significant when geopolitical tensions begin to impede cross-border capital allocation, financial intermediation, and payment systems.

Most obviously, additional restrictions on trade in financial services (including re/insurance) trap capital and liquidity within local markets, raising the costs of cross-border transactions while potentially exacerbating inflation and reducing economic efficiency. More generally, a move away from a unipolar, US dollar-centric system towards a multipolar, regionalised, or bloc-based structure could translate into increased asset market volatility with knock-on implications for macroeconomic stability (Figure 2.1).

2.2 Geopolitical tension and capital flow realignment

2.2.1 Gross capital flows matter but are difficult to track

As discussed in Box 1, accurately measuring financial fragmentation is challenging. While gross trade flows – imports and exports of goods and services – are relatively direct (albeit, often mediated through complex supply chains), gross capital flows are large, complex, and frequently difficult to track, at least in the aggregate statistics. This is especially so if they involve multiple intermediaries (e.g. correspondent banks, offshore financial hubs, etc.).

A further complication is that the structure of financial intermediation often breaks the assumed alignment between geography, currency, and risk-bearing capacity. Some researchers argue that focusing solely on net capital flows can obscure the role of gross cross-border flows intermediated by global financial institutions.¹⁵ Prior to the Global Financial Crisis (GFC) in 2008–2009, for example, European banks intermediated large volumes of US dollar funding into US securitised credit markets – flows that were largely invisible in net current account balance of payment positions but critical in shaping overall credit conditions.

This distinction between net and gross flows is particularly relevant in assessing financial fragmentation. Even if net capital flows remain stable, fragmentation may still occur if gross flows become increasingly concentrated within geopolitical blocs or if cross-border intermediation relies on fewer global balance sheets.

¹⁴ This apparently simple statement has important implications for how to think about financial fragmentation. Loosely speaking, for most countries, export revenues pay for the bulk of imports since there is ultimately a corresponding foreign exchange transaction that involves swapping the importer's currency for that of the exporter. Financial fragmentation that impedes this process can interfere with international trade and therefore domestic wellbeing. But international capital flows dwarf trade-related payments, the only constraint being that the net surplus (deficit) on the capital account must equal the net deficit (surplus) on the current account. Anything that impedes these flows is also considered financial fragmentation and has important economic effects.

¹⁵ Avdjiev et al. 2015.

Box 1: Measuring financial fragmentation

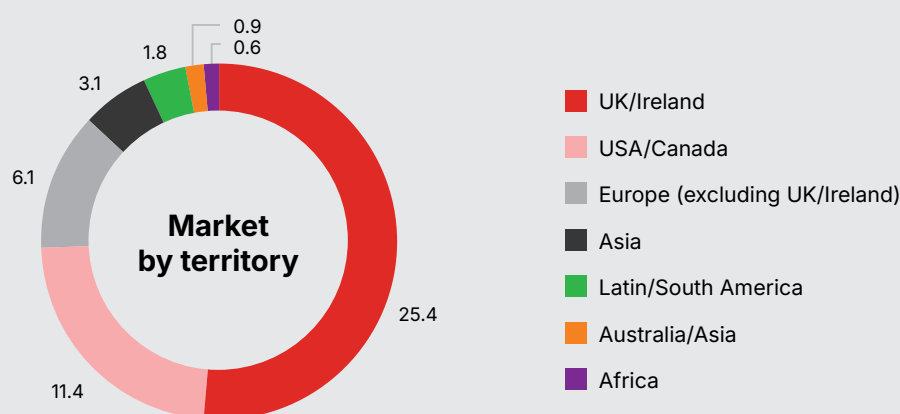
Measuring financial fragmentation is not straightforward, especially considering the complex nature of modern international finance. Most obviously, official data on countries' external assets and liabilities and associated financial flows (for example, those used to construct balance of payments and international investment position statistics) are typically compiled on a residency basis. This means they record transactions between residents of a country (or economic area) and non-residents (the rest of the world) during a given period.

However, such an approach fails to capture the underlying economic ownership or control of the assets/liabilities, which is crucial in mapping external risks and financial dependencies.¹⁶ Multinational firms and financial institutions often operate across jurisdictions, and debt contracts are frequently denominated in international currencies that extend

well beyond national borders.¹⁷ As a result, net capital flows may conceal large gross flows that materially affect leverage, liquidity, and financial vulnerability.¹⁸

For the insurance sector, this distinction is particularly relevant. Re/insurers frequently operate through offshore subsidiaries and deploy intra-group reinsurance vehicles as well as cross-border collateral arrangements. Moreover, onshore and offshore insurance centres play an outsized role in sourcing risk-absorbing capacity (i.e. technical reserves and capital) from around the globe to support cross-border re/insurance programmes. For example, close to half of premiums written in the London company market relate to risk exposures outside of the UK and Ireland (Figure B.1). This adds to the empirical challenges in measuring the effects of financial fragmentation on the re/insurance sector.

FIGURE B.1: LONDON COMPANY MARKET OVERALL PREMIUM IN 2024, BY TERRITORY (GBP BN)



Based on companies in London providing international and wholesale re/insurance coverage (excluding managing agencies operating in the Lloyd's market). The data refer to both business written in London and 'controlled premium', which is written in other locations but overseen and managed by London operations.

Source: International Underwriting Association

Source: Geneva Association

¹⁶ Dias et al. 2024.

¹⁷ McGuire et al. 2024.

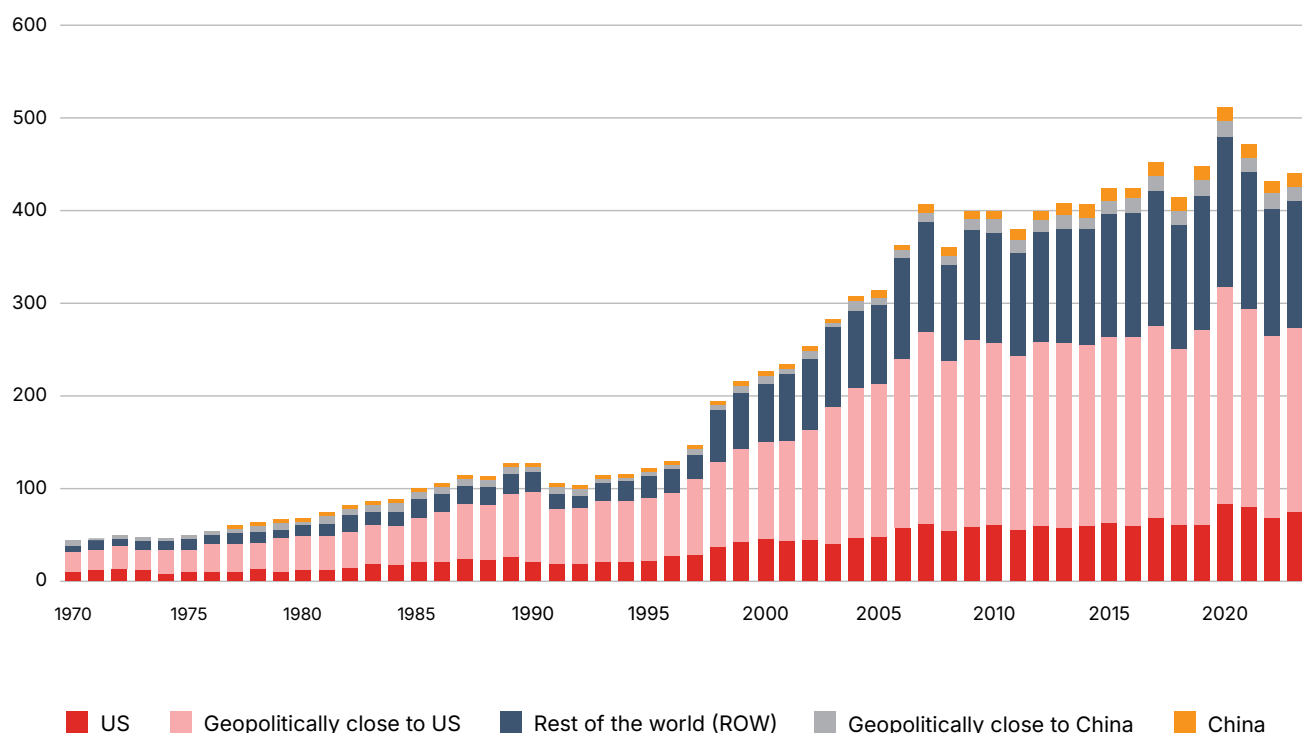
¹⁸ Avdjiev et al. 2015.

2.2.2 The official data can still be informative

Official data on external assets and liabilities provide useful evidence on the evolution of international financial integration. Figure 2.2 shows that the rapid expansion in cross-border financial positions observed during the period of 'hyper-globalisation' from the mid-1990s until the Global Financial Crisis has largely stalled. Since 2008, the ratio of global external assets and liabilities to world GDP has broadly plateaued, with some evidence of modest retrenchment in recent years. This pattern closely mirrors the slowdown in international trade integration over the same period.

FIGURE 2.2: INTERNATIONAL FINANCIAL INTEGRATION BY GEOPOLITICAL ALIGNMENT (% OF WORLD GDP)

Countries geopolitically close to the US and China



Notes: The chart plots the sum of the stock of total gross external financial assets and liabilities relative to world GDP. Latest observation: 2023. Geopolitical alignment based on UN voting patterns.

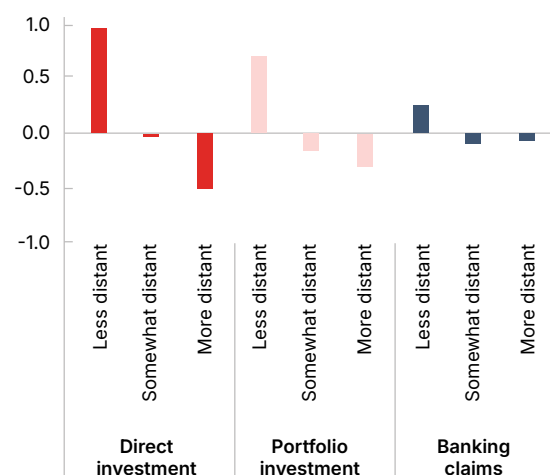
Source: CEPR¹⁹

Looking at data at this broad level of aggregation, it is hard to detect clear signs of global financial fragmentation along geopolitical lines. However, more direct evidence of financial fragmentation emerges when one examines the direction of cross-border financial flows rather than aggregate external positions. Investors generally allocate a smaller share of capital to recipient countries that have greater differences in foreign policy compared to their country of origin (Figure 2.3, left panel). Likewise, greenfield FDI flows – foreign investments made by companies to build new or extend existing production capacity – between western countries have been on the rise since 2016, while flows between the eastern and western blocs have declined (Figure 2.3, right panel).

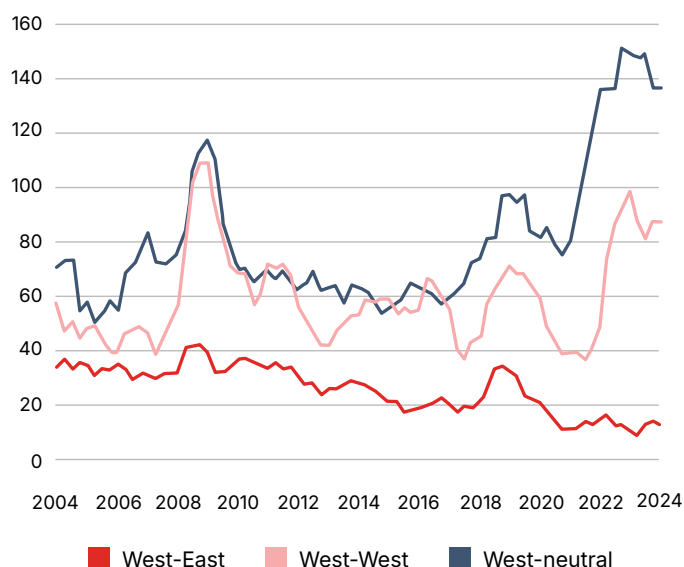
¹⁹ Chari et al. 2025.

FIGURE 2.3: EFFECTS OF FINANCIAL FRAGMENTATION ON CROSS-BORDER INVESTMENTS

Changes in major types of investment flows between 2009 and 2021 (relative to world portfolio, % pts)



Global greenfield FDI flows (four quarter moving average, USD Billions)^(a)



(a) The three distinct blocs – a 'western' (US-centric) bloc, an 'eastern' (China-centric) bloc, and a 'neutral' bloc comprising non-aligned countries – is based on the ECB's geopolitical index. Details of the index are outlined in Besten et al. 2023.

Source: IMF and ECB²⁰

2.2.3 A source of geopolitical risk premia

Deteriorating international relations could encourage investors to reduce exposure to politically distant countries.²¹ In a more fragmented financial system, such portfolio shifts would raise volatility in government bond markets and increase sovereign risk premia, especially where public debt levels are already elevated. In 2025, the global ratio of general government gross debt to GDP approached 94% and is set to climb further to over 102%, driven by significant increased indebtedness among advanced economies, especially the US.²²

Deteriorating international relations could encourage investors to reduce exposure to politically distant countries.

Across major advanced economies, yield curves have steepened over recent years, accompanied by widening interest rate swap spreads, broadly capturing

rising credit risk and funding pressures in the financial system. According to the IMF, fiscal considerations have increasingly driven such moves, with swap spreads exhibiting strong co-movement with projected average budget balances.²³

While domestic investors (including central banks) are typically the largest holders of their countries' sovereign bonds, international and foreign creditors are highly influential in setting pricing and yields because they often absorb the marginal issuance.^{24,25} For example, since 2010, foreign investors absorbed a large and rising amount of US government debt, about USD 7 trillion or around a quarter of the cumulative increase.²⁶ This shifting composition of buyers, combined with the shortening maturity structure of public debt – most notably in the US, where the share of government debt maturing in less than two years rose to over 30% in 2025, up from less than 20% a decade earlier – is adding new layers of fiscal vulnerability and driving up associated risk compensation.²⁷

²⁰ IMF 2023 and Boeckelmann et al. 2024.

²¹ Episodes such as the recent US-China tariff escalations and technology export controls have triggered measurable portfolio outflows even when underlying fundamentals remained broadly sound. BIS 2023.

²² IMF 2026.

²³ IMF 2025.

²⁴ Ari 2017.

²⁵ Foreign non-bank investors may be especially influential. Some researchers find that the take-up of new sovereign debt by such investors is disproportionately larger than their overall average holdings. Fang et al. 2024.

²⁶ IMF 2026.

²⁷ IMF 2023.

2.3 The evolving international monetary system

It is important not to overstate the degree of financial fragmentation that has taken place so far. Western institutions, which created the rules under which international trade in assets takes place, still exert significant influence over global finance.²⁸ A substantial share of global debt contracts – including those between non-US borrowers and non-US lenders – are denominated in US dollars. Similarly, the US dollar continues to dominate global trade invoicing, despite rising geopolitical tensions.²⁹ However, signs are emerging of important changes in the global financial architecture.

The US dollar continues to dominate global currency reserves, trade invoicing, and payments, but signs are emerging of important changes in the global financial architecture.

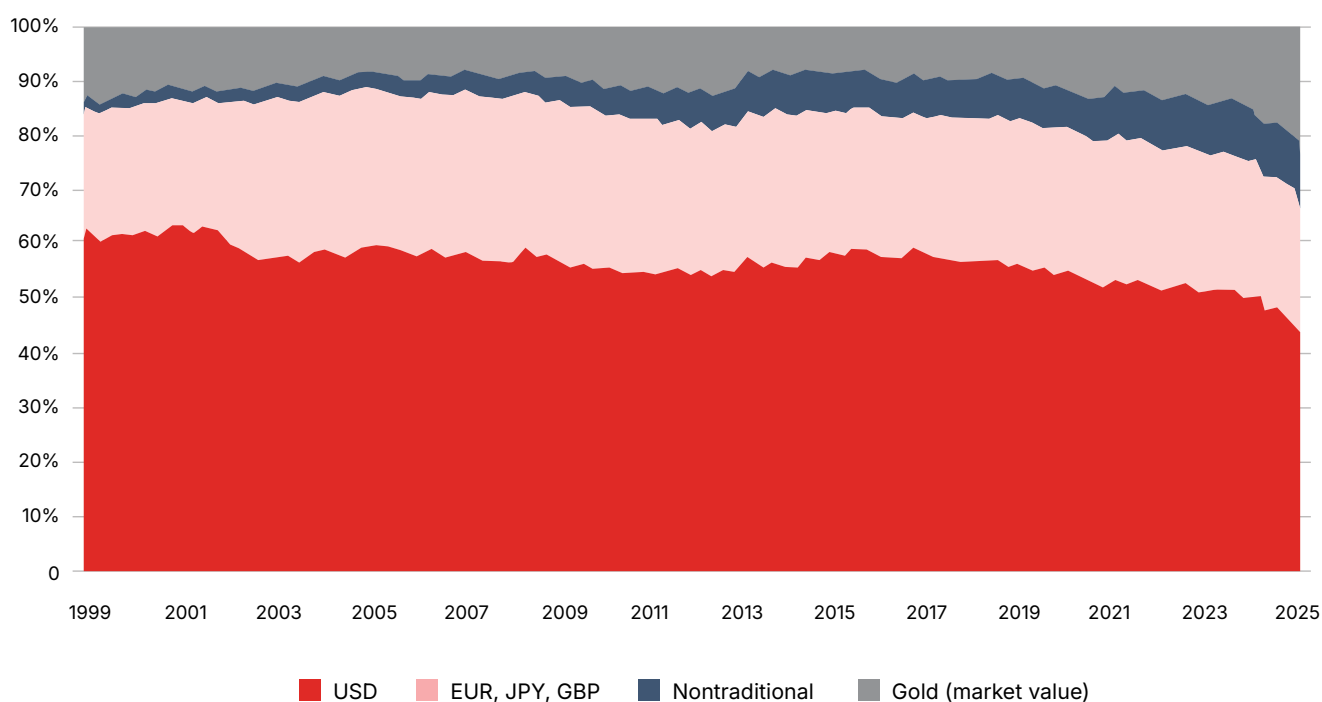
2.3.1 The changing role of the US dollar

The share of the US dollar in official foreign exchange reserves has declined in recent years, while gold holdings and select non-traditional currencies have gained importance (Figure 2.4). Some studies also show that as countries have moved away geopolitically from the US (or the euro area), they have increasingly substituted the US dollar (and the euro) with the renminbi, their own currencies, or third-country currencies in trade invoicing.³⁰

2.3.2 The waning post-WWII economic and financial order

Ultimately, the current configuration of the international monetary and financial system (IMFS) is underpinned by trust: trust that the US will continue to provide key global public goods, such as highly liquid and deep markets for the global safe asset (US treasuries); trust that domestic policies will be geared towards keeping that asset safe; and trust that, in extreme circumstances, it will continue to play the role of global lender of last resort, providing dollar liquidity (at a penal rate) to solvent financial institutions that need it outside its borders.

FIGURE 2.4: COMPOSITION OF GLOBAL CURRENCY RESERVES (FX RESERVES PLUS GOLD), 1999–2025 (% OF TOTAL)



Source: IMF Currency Composition of Official Foreign Exchange Reserves; IMF International Financial Statistics

28 Western institutions dominate (1) the major multilateral institutions (International Monetary Fund, World Bank, regional development banks, etc.); (2) mechanisms for global and regional financial stability cooperation; and (3) rules for the orderly restructuring of sovereign debt.

29 Boz et al. 2025.

30 Boz et al. 2025.

Box 2: Historical precedents of financial fragmentation

The US dollar has long been the global reserve and transaction currency, while US infrastructure remains dominant in cross-border payment and settlement networks. Recent developments, however, especially heightened geopolitical rivalry, mean this equilibrium is under mounting pressure that could presage a

reconfiguration in international trade and finance. Such shifts are not unprecedented – history suggests that even centuries-long monetary systems can ultimately unravel if the conditions that once sustained the prevailing financial order no longer hold (Table B.2).

TABLE B.2: HISTORICAL SHIFTS IN INTERNATIONAL MONETARY REGIMES

Regime	Peak period	Central currency	Backed by	Source of dominance	Trigger for regime shift
Roman Empire	1 st to 2 nd century AD	Denarius	Silver, gold	• Military conquest, roads, laws • Stable coinage and trade	• Debasement of the silver content of the denarius during the Crisis of the Third Century undermined public confidence in its value.
Tang and Song dynasties (China)	7 th to 13 th century	Coins, early paper money	Silver, copper	• Deep internal markets	• Intense military pressure from northern invaders and the subsequent over-issuance of paper money to finance these wars led to hyperinflation.
Spanish Empire	16 th century	Peso	Gold, silver	• Global trade settlement currency	• Latin American wars of independence severed Spain's access to American silver mines and disrupted the global supply of the coin.
Dutch Republic	17 th century	Dutch guilder	Gold	• Trusted banking system • Stable currency	• The Fourth Anglo-Dutch War and associated political instability undermined confidence in the Bank of Amsterdam's ability to maintain the value of the Dutch guilder (florin).
British Empire	19 th to early-20 th century	Pound sterling	Gold	• Industrial-led trade supremacy • Key reserve and settlement currency	• World War II caused unsustainably high debts, which were largely held in the sterling area. • Trade and capital controls provided some relief, but successive devaluations reduced confidence in sterling as a safe haven.

Source: Hiscox

Past episodes show that, depending on latent economic vulnerabilities, financial fragmentation may or may not trigger sharp, disruptive reversals of capital flows and sudden regime shifts. For example, in the interwar years of the 20th century, competitive devaluations and the rise of protectionism triggered the collapse of the gold standard. Capital markets became segmented and exchange rates more volatile, deepening the economic fallout from the Great

Depression. By contrast, the Cold War era represented a gradual, policy-driven decoupling between Western and Eastern-led blocs rather than a sudden crash. The US dollar and Bretton Woods institutions anchored the Western bloc – even after convertibility into gold was suspended in 1971 – while the Soviet Union and its allies operated through non-convertible currencies and bilateral clearing arrangements under the Council for Mutual Economic Assistance (CMEA).³¹

Source: Geneva Association

Ultimately, the international monetary and financial system is underpinned by trust, which is now under threat from geoeconomic splintering.

That trust in the IMFS has rested on the assumption of neutrality and continuity. Once confidence in the system is lost, highly mobile capital is likely to relocate within national borders, or to like-minded and closely allied countries. Any significant move towards national or regional financial autarky will undermine the key functions of international financial markets, namely the smooth financing of current account deficits and risk-sharing across national borders. Both of these lessen exposure to domestic shocks, improve allocative efficiency, and reduce the cost of capital.³²

Arguably, the world is currently witnessing the largest challenge to the trust-based system since the end of World War II. That threat may prove temporary, but a permanent change would likely trigger a major reconfiguration of trade and capital/financial flows. Shifts in the IMFS have happened before, and historical episodes suggest this can occur gradually or abruptly (Box 2).

2.4 Nascent alternative international payment and settlement systems

International capital flows rely on underlying financial infrastructures that provide the channels through which payments, settlement, and data flow across borders. These infrastructures, through interoperability and standardisation, help lower costs and reinforce integration.³³ For example, the SWIFT system (Society for Worldwide Interbank Financial Telecommunication) – overseen by the G10 central banks, including the US Federal Reserve, the Bank of England, and the European Central Bank – is used to process an overwhelming majority of cross-border financial transactions, most of which happen in US dollars.³⁴

However, over recent years, alternative international payment networks have developed, partly in response to increased geopolitical rivalry.³⁵ What had long been perceived as neutral financial plumbing is increasingly seen as source of leverage. China has expanded its Cross-Border Interbank Payment System (CIPS); Russia promotes the System for Transfer of Financial Messages (SPFS); and several regions are piloting instant-payment platforms. Today, over 90% of Russia-China trade is settled in rubles and yuan using SPFS and/or CIPS.³⁶

Alternative international payment networks have developed partly in response to increased geopolitical rivalry.

Technological innovation is also challenging US dollar-centric payments. The China-led Project mBridge combines digital currency with distributed ledger technology (i.e. blockchains) to support direct, real-time settlement. Similarly, stablecoins – privately issued digital tokens that circulate on public, permissionless blockchains – reduce the operational dependency of international finance on the US banking system.

32 There are powerful countervailing considerations, of course. The US derives significant seigniorage – the profit a government makes from printing money – given the dollar's position as the international reserve currency (estimated between 0.5 and 1% of the US GDP). Moreover, given the large current account deficit, policymakers will be wary of interventions that interfere with its smooth financing.

33 [Bank & Finance Consulting Group 2025](#).

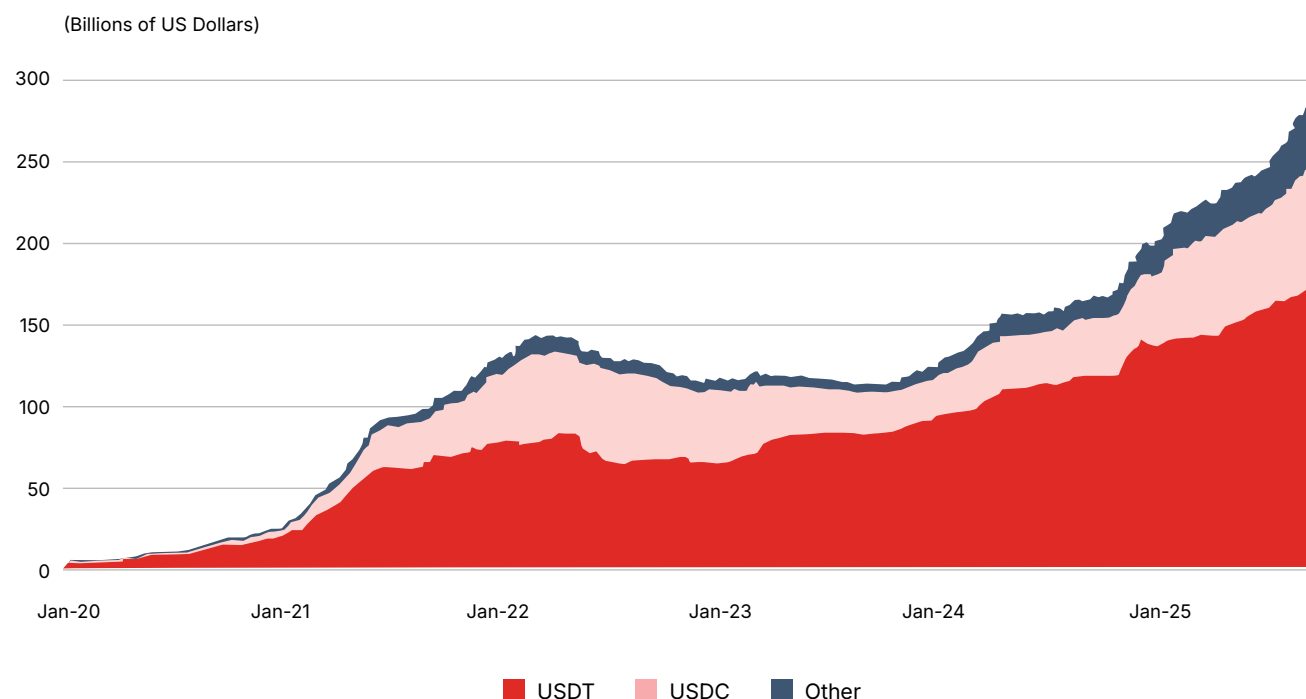
34 Technically, SWIFT is not a payment system but rather a messaging network. Banks send standardised instructions over the encrypted system, and the actual transfers of funds occur via correspondent banking networks, multiple intermediaries, central-bank real-time gross settlement systems, or clearing houses.

35 [Stein and Cocco 2024](#).

36 [Giustra 2026](#).

Most stablecoins still reference US assets (e.g. US treasuries).³⁷ But non-dollar stablecoins are expanding, albeit from a small base, especially euro-backed tokens, with additional issuance emerging in Asia and the Americas (Figure 2.5). This is prompting payment infrastructure providers like Visa to support blockchain-based settlement beyond the US dollar, potentially reinforcing regionalised commerce and monetary ecosystems.³⁸

FIGURE 2.5: SELECTED STABLECOIN CAPITALISATION (USD BILLIONS)



Note: USDT and USDC are the among the largest US dollar-pegged stablecoins and refer to tokens issued by Tether and Circle respectively

Source: CoinGecko and IMF³⁹

2.5 Regulatory and institutional divergence

In the wake of the Global Financial Crisis, enhanced international cooperation and coordinated action by financial authorities sought to address the fault lines exposed by the crisis.⁴⁰ In recent years, however, regulatory approaches have begun to diverge again. Examples include increased focus on financial sovereignty, an expansion in trade, and financial sanctions (Figure 2.6).⁴¹ Tougher localisation and ring-fencing rules, which require assets, capital, data, or operations to be held within a jurisdiction or that certain assets,

activities, or legal entities be segregated from the rest of a financial group, have also started to appear as national regulators rewrite rules to match domestic growth and competitiveness goals.⁴² A common manifestation of the latter is protracted country-level implementation of agreed global standards such as the Basel III framework for banks and the risk-based global Insurance Capital Standard (ICS) for insurers.⁴³

International financial regulations are also diverging.

³⁷ Stablecoins are estimated at around USD 300 billion, still a fraction of wider crypto-asset capitalisation. The IMF estimates that US dollar-pegged stablecoins account for about 97% of issuance. [Adrian et al. 2025](#).

³⁸ Some estimates suggest euro-backed tokens represent more than 80% of non-USD stablecoins outstanding, or roughly USD 1.2 billion. [Dune 2026](#).

³⁹ [Dune 2026](#).

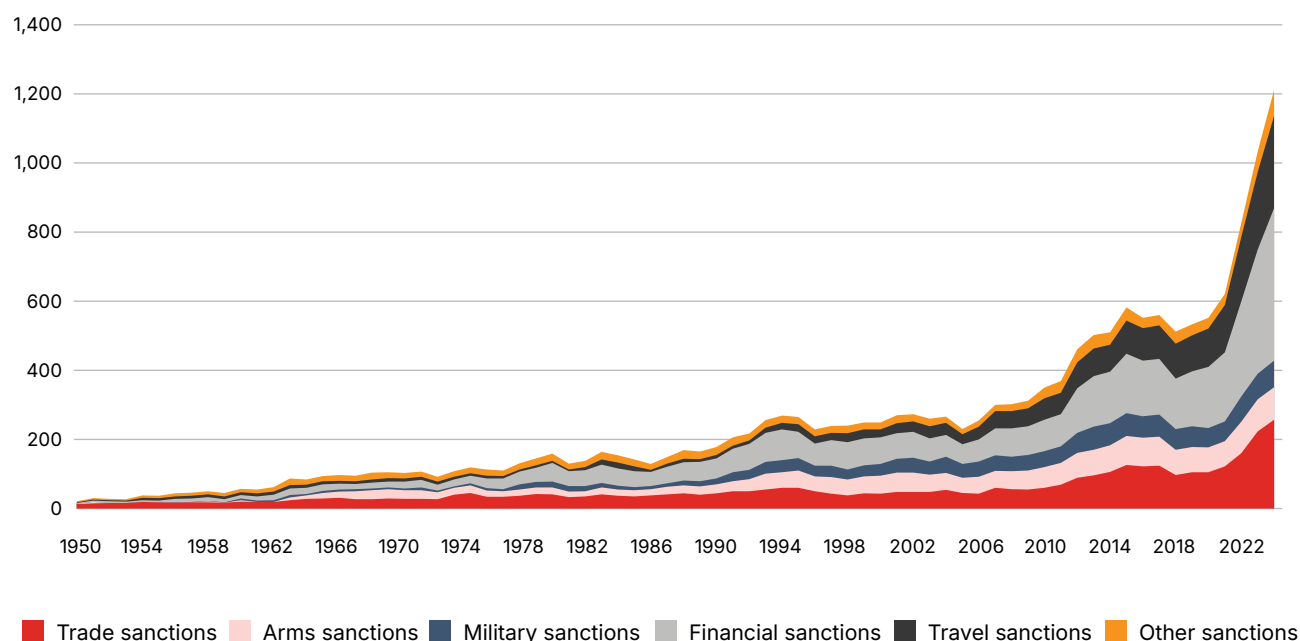
⁴⁰ Initiatives included the development of international standards and setting up mechanisms by the Financial Stability Board (FSB) and standard-setting bodies (SSBs), such as the Basel Committee on Banking Supervision (BCBS), to monitor financial market developments and risks, enhance cross-border regulatory and supervisory cooperation, and assess progress in implementation and effects of reforms. [Gelos and Stephanou 2025](#).

⁴¹ [Aiyar et al. 2023](#).

⁴² [Woolard and Goyne 2025](#).

⁴³ For instance, the European Union recently delayed implementation of key market-risk capital rules for banks by three years while waiting to see how the US and UK proceed, citing competitiveness concerns. [Global Banking and Finance Review 2026](#).

FIGURE 2.6: NUMBER OF INTERNATIONAL SANCTIONS, BY TYPE



Source: Global Sanctions Data Base⁴⁴

Some forms of localisation or ring-fencing may be protective, especially in periods of stress. But these policies may give rise to extraterritorial effects, restrict cross-border flows and market access, and create incompatible or duplicative home and host regulatory requirements.⁴⁵ When the movement of capital increasingly requires political approval rather than responds to market forces, global integration loses efficiency by design.⁴⁶

When the movement of capital increasingly requires political approval rather than responds to market forces, global integration becomes less efficient.

The effects of some regulatory policy changes might be ameliorated by transitional mitigation strategies. A good example is Brexit, where the alignment of prudential capital requirements between the UK and the EU prevented immediate operational or compliance challenges for financial institutions.⁴⁷ Divergent regulatory frameworks across jurisdictions, nevertheless, create opportunities for regulatory arbitrage, where institutions shift activities to jurisdictions with less stringent rules. This undermines the effectiveness of regulation, creates an uneven playing field, and can lead to a build-up of latent risks to financial system stability.⁴⁸ More generally, regulatory fragmentation can impede financial integration, with macroeconomic costs for global growth and diminished opportunities for risk sharing.⁴⁹

⁴⁴ WIFO 2026.

⁴⁵ Claessens 2019.

⁴⁶ Allianz 2026.

⁴⁷ Eyal 2026.

⁴⁸ Some studies show that regulatory arbitrage can concentrate risks in opaque, less well-regulated jurisdictions. Cerutti et al. 2017.

⁴⁹ IMF 2023.

3

Potential impact on international insurance and reinsurance markets



Potential impact on international insurance and reinsurance markets

Four main transmission channels shape how fragmentation impacts global risk pooling and capital allocation for re/insurers, as well as potential amplification effects.

Because re/insurers operate as long-term financial intermediaries embedded in global capital markets, financial fragmentation can influence both sides of their balance sheets as well as the networks through which risks are pooled and transferred internationally. This section therefore describes four main transmission channels through which financial fragmentation would likely affect the insurance sector:

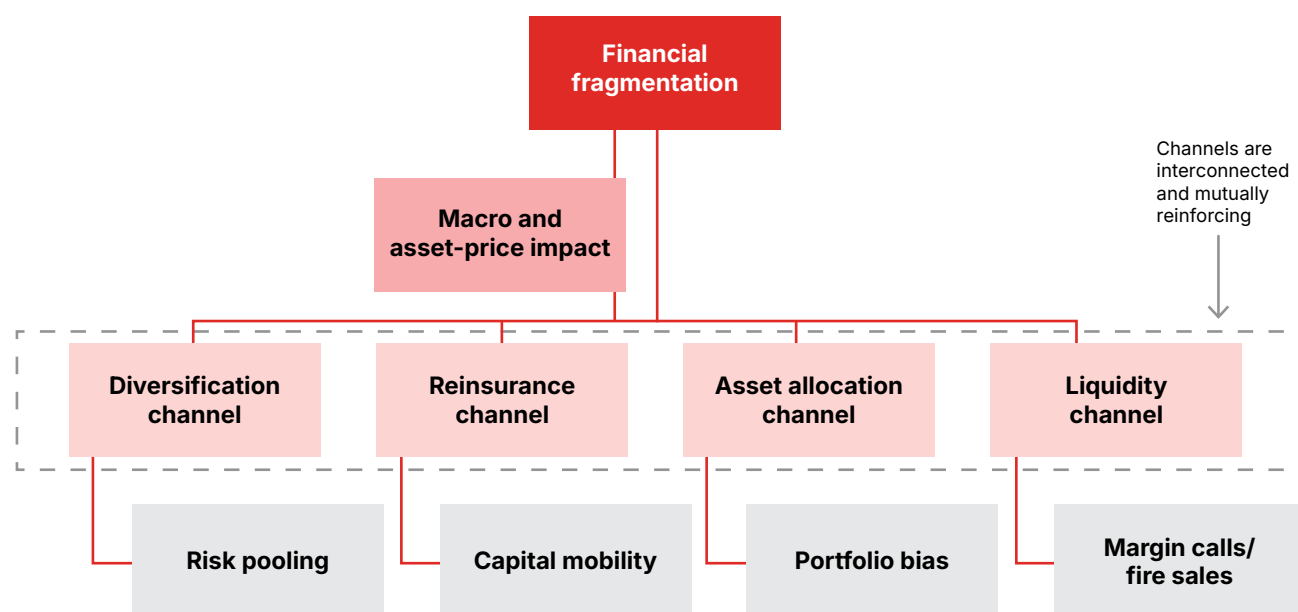
Financial fragmentation impairs insurers' ability to pool insurance exposures geographically, transfer risk through reinsurance, and access international investments.

1. **Cross-border diversification** and the business of international insurance, which affect internationally active insurers' ability to pool risks across countries;
2. **Risk transfer and reinsurance networks**, which determine how risks and capital are shared across jurisdictions;
3. **Asset allocation and investment strategy**, which affect how insurers invest policyholder funds and manage currency and credit exposures;
4. **Liquidity and balance-sheet dynamics**, which determine how shocks propagate through insurers' asset-liability structures.

These channels are analytically distinct but mutually reinforcing (Figure 3.1). In combination, they shape how fragmentation alters the efficiency of global risk pooling, the allocation of capital within the insurance sector, and the potential for amplification effects during periods of financial stress.⁵⁰

⁵⁰ Although focused more broadly on the effects of geopolitical risk on insurers' balance sheets, the IAIS identifies several similar transmission channels. [IAIS 2026](#).

FIGURE 3.1: FRAGMENTATION TRANSMISSION CHANNELS



Source: Geneva Association

Importantly, the effects of financial fragmentation are not uniquely felt by re/insurers. Many of the same underlying mechanisms – including liquidity pressures, collateral dynamics, reduced market depth, and asset-price amplification – also affect banks, asset managers, and other non-bank financial intermediaries. For instance, IMF analysis shows that an increase in geopolitical distance between an investing and recipient country could reduce bilateral cross-border portfolio and banking allocation by around 15%.⁵¹ The focus here is instead on how fragmentation interacts with the specific structural features of insurance-sector balance sheets, including long-duration liabilities, reliance on reinsurance, and exposure to market-based assets.

The effects of financial fragmentation are not uniquely felt by re/insurers but also banks, asset managers, and other non-bank financial intermediaries.

3.1 Channel 1: Cross-border diversification and international insurance markets

Insurers take in known cashflows (premiums) in exchange for a promise to indemnify policyholders should a defined event occur or as a vehicle in which individuals can save. By pooling policies across

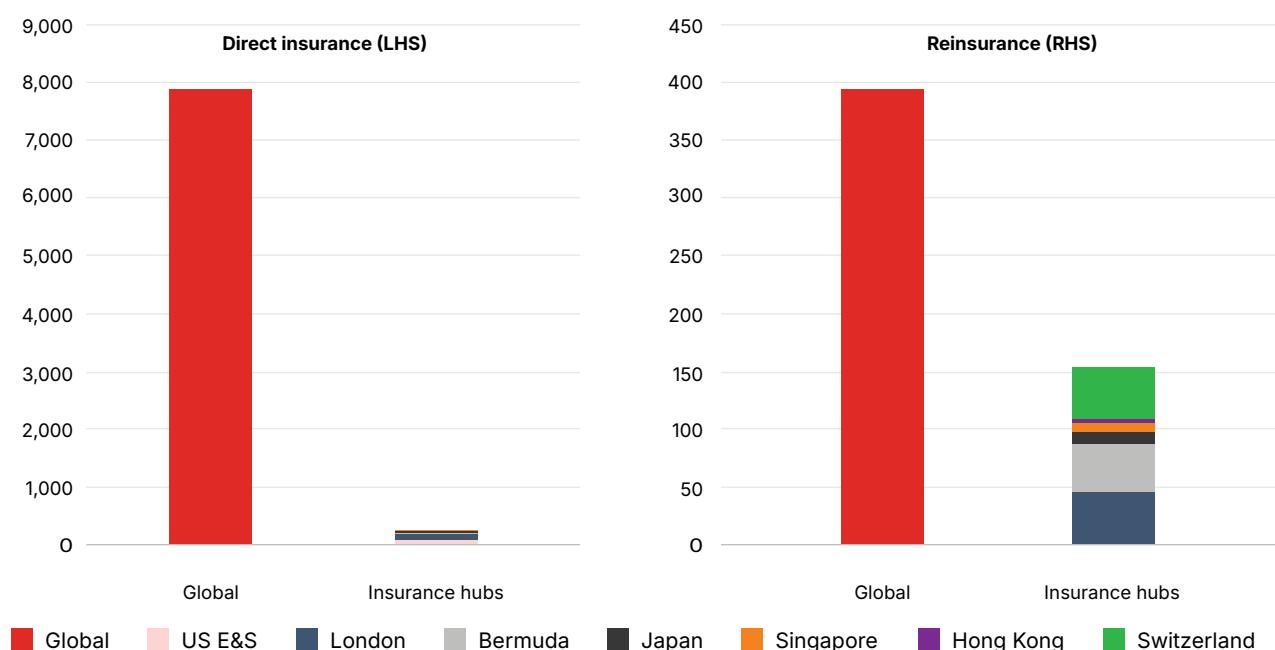
insureds, insurers can diversify risk, holding technical reserves on the liability side of their balance sheet that cover the expected present value of future claims and/or benefit payouts. Companies will also hold capital ('shareholder funds' or equity capital) to cover unexpectedly large losses. Holding capital, though, is expensive and must be optimised to cover the underlying economic risks while considering minimum regulatory requirements as well as credit rating agency thresholds.⁵²

As discussed in Box 3, regulation is the primary determinant of whether insurers can write business cross-border, creating significant trade barriers. Genuinely cross-border business is largely restricted to international corporate risks in sectors such as marine, aviation, and transport and is often routed through international financial centres. Even then, business written through insurance hubs represents less than 4% of global direct insurance premiums (Figure 3.2). Instead, major insurance groups that underwrite risks in different countries do so almost entirely through locally incorporated entities or branches and/or deploy specific organisational workarounds (e.g. fronting arrangements whereby a locally licenced insurer issues a policy on behalf of an overseas insurer).

⁵¹ IMF 2023.

⁵² Non-life insurers generally hold more equity capital (relative to policyholder liabilities) than life insurers, primarily because they face higher underwriting risk, greater liability volatility, and shorter-term, less predictable payouts. In contrast, life insurers handle long-term contracts and focus mostly on managing investment risks and unexpected policyholder behaviour, including high-volume policy lapses or surrenders. SLC Investment Management 2024.

FIGURE 3.2: INSURANCE VIA INTERNATIONAL HUBS (GROSS PREMIUMS 2024 IN USD BILLIONS)



Source: Based on data from the London Market Group, Swiss Re, and Atlas.

To the extent geopolitical tensions spark new or more restrictive rules on international insurance business, geographical diversification gains may fall, causing risk concentration, expected losses, and associated technical reserves to rise.⁵³ It would also increase compliance costs and operational risks facing insurers with additional implications for their overall costs of capital.

Box 3: Cross-border re/insurance and barriers to trade

Cross-border insurance transactions are subject to complex regulations designed to protect policyholders and ensure financial stability. Most jurisdictions require international insurers to be licensed locally to operate within their territory. These so-called admitted insurers may be set up as separate legal entities (i.e. subsidiaries) that are subject to full host-country supervision. Alternatively, they may be an overseas branch of the insurer, with supervisory oversight remaining with the home-country regulator. Although foreign branches need not hold independent capital, host supervisors often require them to maintain ring-fenced assets within the jurisdiction equivalent to their local liabilities.⁵⁴

Non-admitted insurance and fronting

Some insurance may be written internationally without meeting local licencing and regulatory requirements. Such non-admitted insurance typically covers specialised commercial risks including professional liability (e.g. D&O, E&O), excess/umbrella

liability, and niche sectors like marine, aviation, and transport.

However, the rules relating to non-admitted insurance differ across jurisdictions. For example, non-admitted insurance is generally not permitted in China and India, while some countries, like Brazil and Mexico, expressly permit non-admitted insurance only where comparable coverage is not available in the local market. Compared with P&C insurance, non-admitted coverage for life insurance is rare and limited to unique or high-value risks, and, in some jurisdictions, is not permitted at all.

Even where non-admitted coverage is allowed, there may be restrictions on whether certain insurance-related activities are permitted. As a result, international insurers often use 'fronting' arrangements to comply. A locally licenced 'fronting' carrier initially issues the policy, then immediately transfers most or all the risk to a non-admitted captive insurer or reinsurer via a reinsurance agreement.

⁵³ Strictly, this channel describes impediments to how the business of international insurance is conducted. As such, it has more to do with the fragmentation of international trade than pure financial market fragmentation.

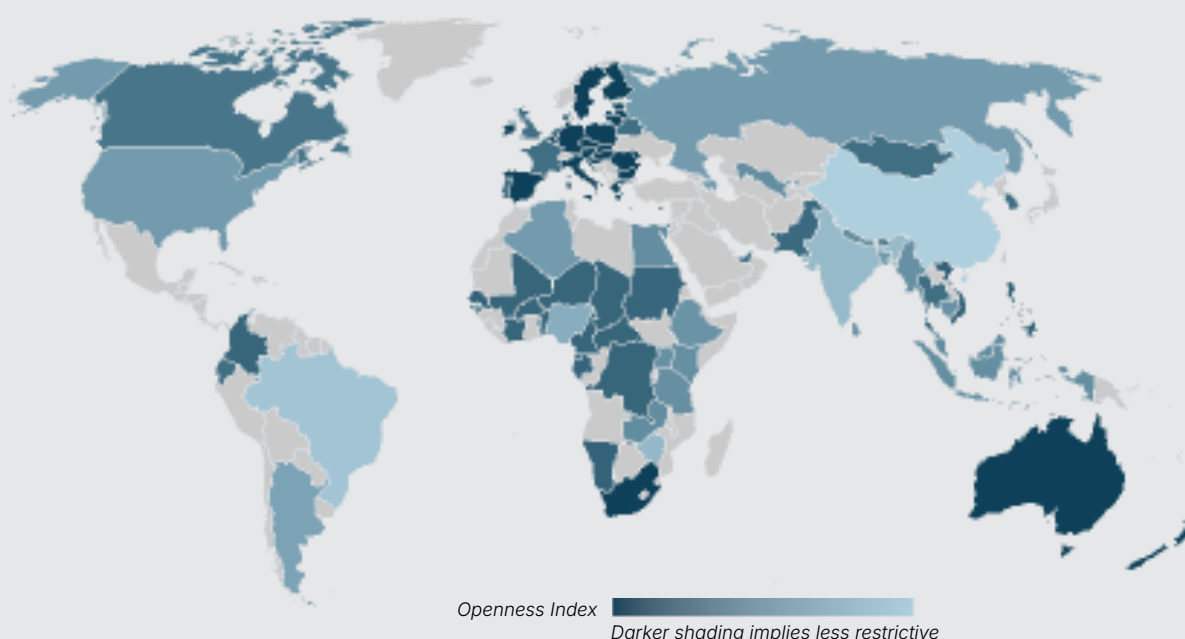
⁵⁴ IAIS 2013.

Offshore reinsurance

Reinsurance plays a key role in spreading risks geographically. Even if a policy is technically written locally, the risk is frequently passed back to an offshore entity through reinsurance and retrocession. Non-admitted reinsurers typically operate through specialty markets such as Lloyd's of London or Bermuda, meaning capital flows are frequently directed toward and concentrated in these insurance hubs.

To ensure adequate security to underpin the risk transfer, a foreign reinsurer may have to post collateral with the cedant (e.g. a letter of credit with a local bank). These regulatory requirements differ across countries depending on inter-regulator agreements (Figure B.3). For example, in the US, reciprocal jurisdictions allow non-US reinsurers to post zero collateral, whereas qualified jurisdictions require certified reinsurers to post reduced collateral based on their external credit ratings.⁵⁵ In some jurisdictions, such as China and Canada, local regulators may impose additional capital requirements on ceding insurers who use offshore reinsurance.

FIGURE B.3: CROSS-BORDER REINSURANCE OPENNESS INDEX



Note: The index is a weighted average score of country-level indicators measuring the ease of using cross-border reinsurance to cede risks. These include whether cross-border reinsurance is permitted, whether offshore reinsurers must post collateral and/or security, and whether some reinsurance must be placed with a local reinsurer.

Source: Calculations by the Geneva Association based on the Reinsurance Trade Barriers and Market Access information published by the Global Reinsurance Forum (GRF).⁵⁶

Source: Geneva Association

3.2 Channel 2: Risk transfer and global reinsurance networks

Whereas Channel 1 concerns the relatively limited amount of insurance business written directly across borders, this second channel focuses on international risk transfer through reinsurance – the principal mechanism through which insurance markets share risk internationally. Even when insurance policies are written domestically, risk transfer through reinsurance markets is

often crucial. While reinsurance recoverables are treated as an asset on an insurance company's balance sheet, economically they function to reduce the net liability (claims payable) to policyholders, reflecting the shared financial burden. As a result, they can be an important part of the optimal management of insurers' capital.

⁵⁵ NAIC 2021.

⁵⁶ GRF 2025.

Reinsurance is inherently international. Global reinsurers diversify risks across geographies, lines of business, and regulatory regimes.

Reinsurance is inherently international. Global reinsurers diversify ceded risks across geographies, lines of business, and regulatory regimes. They rely heavily on globally integrated capital markets to source appropriate assets to back their liabilities. Fragmentation may impair this mechanism through:

- Restrictions on cross-border financial flows.
- Divergence in accounting, prudential solvency, and liquidity standards.
- Ring-fencing of locally held capital.
- Sanctions or geopolitical alignment constraints.

Global reinsurance markets exhibit hub-and-spoke characteristics, with major reinsurers in specific financial centres acting as central nodes. Collectively, the major insurance hubs account for close to 40% of the global reinsurance market (Figure 3.2). To the extent that financial fragmentation reduces network density – where reinsurers are less interconnected and interact less frequently – this could also increase the transmission of shocks within blocs while decreasing global diversification benefits.

From an analytical perspective, reinsurance markets can be viewed as mechanisms for allocating global risk-bearing capacity across jurisdictions. Large reinsurers operate as internationally diversified intermediaries that deploy capital where risk-adjusted returns are most attractive. Financial fragmentation may alter this allocation mechanism by introducing frictions in cross-border capital mobility, reinsurance receivables settlement, and the regulatory treatment of liabilities. In extreme cases, fragmentation may lead to regionalisation of reinsurance markets, increasing concentration risk within country blocs.

Financial fragmentation could lead to regulatory authorities requiring foreign reinsurers to maintain higher levels of capital locally.

Besides reduced geographical risk diversification opportunities, financial fragmentation could lead regulatory authorities in host countries to require foreign reinsurers to maintain higher levels of capital locally, preventing capital from moving freely across borders. This reduced fungibility lowers overall capital efficiency and pushes up the cost of reinsurance. In turn, this may increase the levels of own capital primary insurers need to hold to meet commitments to policyholders, the cost of which will be reflected in the prices they charge for their policies.

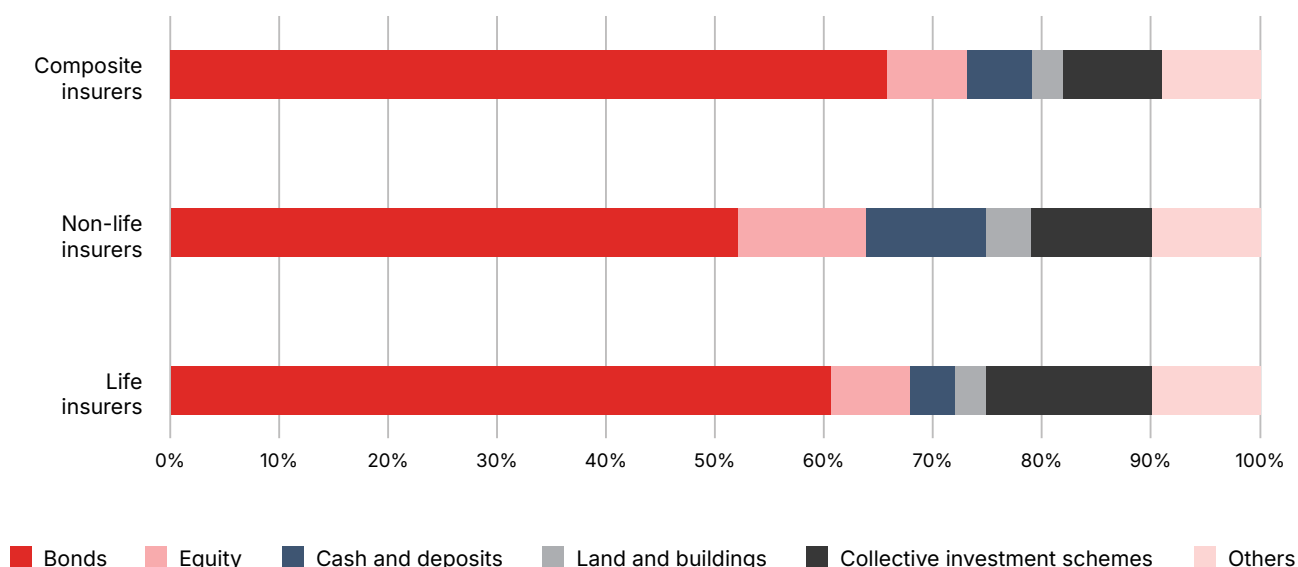
Financial fragmentation could pose particular challenges to asset-intensive reinsurance strategies if they straddle jurisdictions that become less aligned. These structured transactions, which have become common recently in some life and annuity sectors, involve the reinsurer assuming both the chances of higher-than-expected claims and potential underperformance of the transferred assets associated with the portfolio of policies. They depend crucially on global capital mobility and cross-border risk transfer to manage the long-term asset and liability risks, so increased fragmentation can reduce any capital and operational efficiency gains.

3.3 Channel 3: Portfolio allocation and investment strategy

While the first two channels operate primarily through the liability side of insurers' balance sheets, financial fragmentation also affects how insurers invest policyholder funds as well as their own capital. It constrains the choice of assets to back their liabilities, which makes the investment process more challenging with important repercussions for managing legacy risks such as guaranteed annuities. Figure 3.3 shows the average allocation across broad asset types for different types of insurers, based on data from the OECD. Regardless of their domicile, insurers exhibit a strong home bias in their investments (i.e. a tendency to favour domestic over foreign assets). For example, according to ECB analysis, traditional life insurers hold 40–50% of total bond portfolios in domestic securities.⁵⁷

57 Corradin et al. 2025.

FIGURE 3.3: AVERAGE ASSET ALLOCATION OF DOMESTIC LIFE, NON-LIFE, AND COMPOSITE INSURERS AMONG REPORTING JURISDICTIONS AT THE END OF 2024 (% OF TOTAL INVESTMENT)



The data exclude assets related to unit-linked products where risk is fully borne by policyholders. The 'Others' category includes investments in loans, private equity funds, hedge funds, structured products, and other investments. Negative values in some categories for some jurisdictions were excluded.

Source: OECD⁵⁸

Financial fragmentation typically manifests itself through reduced cross-border capital flows, heightened geopolitical risk premia, regulatory divergence, sanctions regimes, and restrictions on capital mobility. For both domestic and international insurers, such developments alter both the opportunity set and the relative pricing of assets. But for globally active re/insurers, which invest in international sovereign and corporate securities to back international insurance liabilities, financial fragmentation poses additional challenges.

Fragmentation can induce or accentuate:

- Home bias in sovereign bond holdings.
- Reduced exposure to foreign corporate credit.
- Lower participation in emerging market debt.
- Increased investment allocation to domestic or politically aligned jurisdictions.

This reallocation may reflect both market forces (reactions to changing risk premia, currency volatility, liquidity conditions) and supervisory or political pressures. Over time, the global diversification benefits that historically characterised insurers' asset portfolios may erode.

3.4 Channel 4: Liquidity, duration, and balance-sheet dynamics

Unlike banks that fund themselves through (short-term) deposits, insurers' funding comes in the form of upfront policyholder premiums. These are not typically repayable on demand (or at least over short periods) and are held to pay claims that typically occur much later. Consequently, insurers do not face the risk of a 'run' in the same way as banks.

Instead, insurers must manage potential illiquidity arising from:

- Unexpectedly large claims or policy surrenders.
- Margin calls (i.e. demand for additional collateral) arising from the use of financial derivative instruments in their investment or risk management strategies.

Increased need for funds to meet insurers' short-term obligations often arises during periods of macroeconomic stress, such as when interest rates rise sharply and unexpectedly.

The heightened need for funds to meet insurers' short-term obligations can often arise during periods of macroeconomic stress, such as when interest rates rise sharply and unexpectedly. Should funding strains coincide with financial market fragmentation, the potential for these stresses to intensify increases.

3.4.1 Fragmentation, liquidity segmentation, and duration

The further segmentation of funding markets along geopolitical or jurisdictional lines would make it more difficult for re/insurers to:

- Access foreign currency funding.
- Mobilise cross-border collateral.
- Conduct securities financing transactions (e.g. repurchase agreements).
- Deploy derivatives clearing and margining frameworks.

As a result, liquidity that was once globally fungible may become regionally constrained.

This has important implications for how insurers (especially life insurers) manage duration risk – i.e. how their assets and liabilities change as market interest rates change. When interest rates rise, surrender incentives typically increase and the effective duration of liabilities shortens.⁵⁹ This mechanical shortening reflects the embedded option value of surrender rights: higher market yields make guaranteed contracts relatively less attractive, increasing lapse and surrender activity. The liability side of the balance sheet therefore becomes more sensitive to interest rates in a rising interest rate environment.

In an integrated financial system, insurers can respond by adjusting the duration of their assets through portfolio rebalancing, derivatives, or cross-border asset sales to maintain asset-liability alignment. However, in a fragmented environment, this adjustment may become slower, more costly, or more constrained. Reduced cross-border market access, segmented funding markets, lower secondary market liquidity, or regulatory frictions can limit the insurer's ability to shorten asset duration in line with liabilities.⁶⁰

The result is not simply a static duration mismatch, but an increase in the elasticity of the duration gap, or how closely the timing of asset cash inflows and liability cash outflows respond to interest-rate movements.⁶¹ Fragmentation impairs the asset side's capacity to adjust in response to duration gaps. Under stress, this rigidity can necessitate asset sales to restore alignment, thereby linking changes in duration directly to liquidity pressure, potential fire-sales, and downward pressure on asset prices (including bonds).⁶²

3.4.2 Hidden leverage and balance sheet opacity

Alternative assets such as private credit, infrastructure debt, structured securities, and private equity can provide yield and duration matching benefits. This is especially important for life insurers that sell savings products with guaranteed returns and can commit funds without needing to quickly liquidate. However, alternative assets may involve heightened valuation and illiquidity uncertainty as well as structural complexity. Such features may be exacerbated by financial fragmentation, given the increased potential for information asymmetries to distort price discovery in asset markets.

In a fragmented environment, cross-border comparability of regulatory treatment and transparency may decline, increasing the challenges in assessing the fundamental value of financial assets.⁶³ Leverage is often embedded in asset structures rather than traditional borrowing. The extent of this synthetic leverage may also be underappreciated and only become evident, for instance, when a derivative position's value moves strongly, potentially creating a large profit or loss.⁶⁴ In combination, hidden leverage and valuation uncertainty increase insurers' susceptibility to illiquidity-induced solvency strains.

3.5 Understanding the interactions between the channels

In summary, there are four main ways through which financial fragmentation may affect the re/insurance sectors: access to diversifying risks pools, availability and cost of reinsurance, selection of optimal investments to back their liabilities, and potential added complexities in managing capital and liquidity. Although conceptually distinct, these channels are tightly

⁵⁹ Grochola et al. 2023.

⁶⁰ The challenge for insurers – especially life insurers – is that often there are very few ultra long-dated securities to match their liabilities. Those available are at best an imperfect hedge, given the structure of cash flows in their liabilities.

⁶¹ Formally, fragmentation may increase the sensitivity of the asset-liability duration differential to changes in yields: $\partial(D_A - D_L)/\partial r$ where D_A and D_L denote effective asset and liability durations, respectively, and r refers to interest rate.

⁶² The 2022 crisis affecting the UK pension fund sector was arguably triggered by such a process. The Bank of England ended the crisis by stepping in to act as lender of last resort to troubled non-bank financial institutions for the first time. Chen and Kemp 2023.

⁶³ IAIS 2025b.

⁶⁴ Compared to leverage through traditional borrowing, synthetic leverage can stem from derivative instruments or securities financing transactions that create exposures contingent on the future value of an underlying asset. Ianiro et al. 2022.

interconnected because re/insurers operate as integrated financial intermediaries whose balance sheets link underwriting risk, investment portfolios, and capital allocation decisions. Financial fragmentation alters how risks and capital move across borders, how insurers adjust their portfolios, and how shocks propagate through financial markets.

To analyse these mechanisms systematically, it is useful to translate the conceptual channels described above into a quantitative framework that captures the interaction between underwriting decisions, balance-sheet management, and macro-financial conditions. The challenges in measuring financial fragmentation – especially the lack of publicly available data on non-bank gross capital flows on an ultimate owner basis – make a traditional statistical approach impractical. Instead, this report develops a small analytical model to assess empirically the impact of financial fragmentation on re/insurers. By carefully calibrating the model against sector-wide features of the aggregate re/insurance balance sheet as well as plausible estimates of potential shocks to financial market variables, the framework provides a way to articulate and quantify the potential impact of financial fragmentation. This is explored further in the next section.

4

Quantitative modelling framework



Quantitative modelling framework

This section presents a quantitative modelling framework focused on how increased financial fragmentation affects insurers' balance sheets through available reinsurance capacity and the resulting asset market dynamics.

The quantitative framework combines elements of insurance economics, network modelling, and macro-financial analysis. Since the direct insurance market is already globally fragmented – international insurers typically operate through locally incorporated subsidiaries with ring-fenced assets – the setup focuses on how increased financial fragmentation affects insurers' balance sheets through available reinsurance capacity and the resulting asset market dynamics. The model is not intended to replicate the full complexity of the global insurance system. Instead, it provides a tractable representation of the core mechanisms through which financial fragmentation can influence the behaviour of re/insurers. The model is calibrated using stylised balance-sheet features representative of the life insurance and reinsurance sectors.⁶⁵

The insurance system can be viewed as a set of interacting balance sheets and networks embedded within a macro-financial environment.

4.1 Model architecture

4.1.1 Core structure

The insurance system can be viewed as a set of interacting balance sheets and networks embedded within a macro-financial environment. Specifically, the model incorporates three geographic regions – Home, Partner, and Rival constituencies – reflecting that financial fragmentation is often shaped by geopolitical alignment. Within this environment, there are three key behavioural modules:

- **Module 1 – Reinsurance capacity and cross-border risk transfer:** Global reinsurers seek to allocate risk-bearing capacity across the three jurisdictions to maximise expected profits subject to capital constraints. The reinsurers' decisions determine how much risk is absorbed in each region and the pricing of reinsurance contracts.
- **Module 2 – Primary insurer balance sheets and liquidity dynamics:** Primary insurers manage balance sheets consisting of a mix of short- and long-duration liabilities and diversified asset portfolios. Their overall net worth (the value of their assets less liabilities) is therefore sensitive to movements in interest rates, credit spreads, and asset prices.
- **Module 3 – Macro-financial asset pricing and market liquidity:** Interest rates, credit spreads, and asset prices are modelled as stochastic processes that respond to external macroeconomic shocks. The degree of financial integration across regions, which in turn affects insurers' capital positions and liquidity conditions, influences the extent to which effects differ.

The interaction between these three modules determines how shocks propagate through the economy and re/insurance sector and ultimately affect systemic resilience.

The stylised three-country-bloc and three-behavioural-module framework is not intended to imply symmetry in the real-world financial system. Current global financial architecture remains heavily concentrated around US dollar funding markets and Western-centred reinsurance hubs. The model illustrates transmission mechanisms rather than attempting to replicate the

⁶⁵ The life insurance sector is chosen as the reference balance sheet given the relatively more important links to the macroeconomy through both assets and liabilities. Non-life insurers are also influenced by natural catastrophe and liability perils, which are beyond the scope of this report.

existing distribution of market power. Depending on the nature of any escalation in geopolitical rivalry, the model helps evaluate how the geometry of global finance may change and the likely ramifications for re/insurers.

4.1.2 Financial fragmentation effects

Financial fragmentation can arise through different mechanisms: policy restrictions on cross-border financial activity; prudential or regulatory divergence; sanctions and geopolitical alignment constraints; settlement and payment frictions; and a shift in investor preferences away from assets issued in politically distant jurisdictions (Table 4.1). These mechanisms are distinct in practice, but they operate in the model through a common set of frictional ‘wedges’ that affect cross-border capital mobility, payment systems, and portfolio investment.

Financial fragmentation can arise through mechanisms such as policy restrictions, regulatory divergence, sanctions, and payment frictions.

These wedges alter the optimal behaviour of re/insurers and generate feedback between their underwriting, investment, and liquidity management decisions. As a result, the wedges influence the allocation of reinsurance capacity (Module 1), insurers’ balance-sheet dynamics (Module 2), and asset market conditions (Module 3). Box 4 provides an overview of the key model features. Additional technical details are available in a companion online document.⁶⁶

4.1.3 Shifts versus shocks

It is useful to distinguish between structural shifts and disruptive shocks. Some forms of fragmentation are gradual: regulatory requirements tighten, capital becomes trapped locally, cross-border reinsurance becomes costlier, and portfolios slowly tilt towards domestic or politically aligned markets. Other forms may crystallise suddenly if a geopolitical or financial event causes a sharp reassessment of trust in the international financial infrastructure. The model does not attempt to forecast either path. Instead, it provides stylised experiments showing how different degrees and forms of fragmentation could affect reinsurance capacity, insurer balance sheets, and asset market conditions.

Some forms of fragmentation are gradual while others may crystallise suddenly if a geopolitical or financial event impacts trust in the international financial infrastructure.

The model is silent on the precise structural drivers of financial fragmentation – the underlying forces that influence whether the financial system becomes more (or less) integrated. Instead, it captures the overall effect of increased financial fragmentation via exogenously imposed frictions that affect how easily (and at what cost) capital and funding flow across borders. By varying the degree of persistence of these frictions, the model can mimic slow-moving or more rapid, and potentially more disruptive, forms of financial fragmentation.

TABLE 4.1: OPERATIONAL FORMS OF FINANCIAL FRAGMENTATION

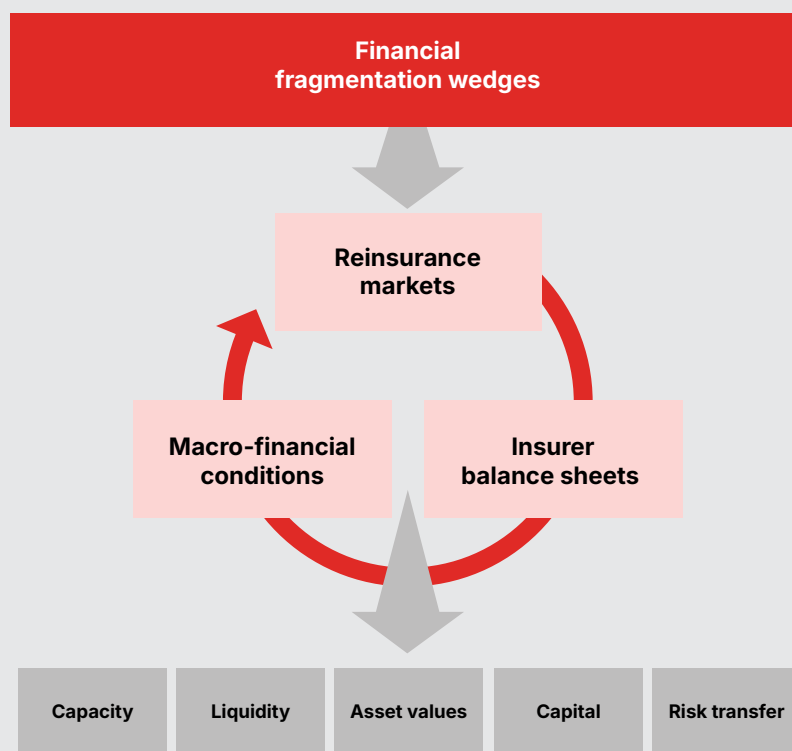
Operational mechanism	Practical example	Insurance-sector effect
Prudential divergence	Higher capital charges on foreign reinsurance recoverables	Raises cost of cross-border reinsurance
Capital localisation	Ring-fencing of capital/liquidity within subsidiaries	Reduces fungibility of global capital
Settlement/payment frictions	Delayed cross-border claims payments or collateral transfer	Reduces recoverability and increases liquidity needs
FX funding fragmentation	Higher hedging or dollar funding costs	Raises collateral and liquidity pressure
Portfolio/geopolitical home bias	Investors shift away from rival-bloc assets	Raises spreads and reduces diversification

Source: Geneva Association

66 See Technical Appendix

Box 4: How the model works

FIGURE B.4: MODEL ARCHITECTURE



Source: Geneva Association

Figure B.4 summarises the core relationships and transmission channels captured in the model. Because of the key role reinsurance plays in facilitating cross-border risk transfer, the model assumes increased financial fragmentation initially impairs reinsurance (Channel 2) – downplaying the effects on cross-border direct insurance (Channel 1), which are modest for most insurance lines – before propagating further through the system. Specifically, cross-border capital mobility constraints limit the ability to deploy reinsurance across jurisdictions; regulatory divergence alters capital requirements across regions; settlement and payment frictions affect the reliability of reinsurance recoveries; and geopolitical risk premia increase the cost of providing coverage in certain jurisdictions.

All these frictions reduce the fungibility of global reinsurance capital leading to regionalisation of reinsurance markets. That distorts the allocation of global risk-bearing capacity, affecting both the quantity of reinsurance supplied and its cost, which in turn will spill over into the terms and conditions

that households and firms face for insurance.

Constraining which international financial instruments investors (including insurers) can hold alters the demand for foreign assets, reduces market depth, and triggers repricing for those assets, including required risk premia. In fragmented markets, liquidity is not easily transferable. Constraints could therefore expose underappreciated liquidity mismatches and counterparty risks for insurers, especially if such market moves reveal hidden leverage, all of which have implications for their ability to manage their balance sheets.

The model captures these effects through a simplified representation of insurers' balance sheets, linking surrender behaviour, liquidity needs, and portfolio adjustments. When liquidity pressures exceed available buffers, insurers may be forced to sell assets to meet contractual commitments. Reduced market depth means that large asset sales can generate significant price impacts, creating feedback between insurers' balance sheets and asset market volatility.

Source: Geneva Association

4.2 From geoeconomic drivers to modelled scenarios

The future evolution of the international financial system remains highly uncertain. The modelled scenarios aim to translate plausible geoeconomic drivers into tractable model experiments to explore potential outcomes. Rather than attempt to capture every conceivable future, the scenarios are intended to reflect the main ways in which financial fragmentation could unfold under realistic geoeconomic conditions. The scenarios therefore assume that, despite growing fragmentation and a greater regional focus in some areas of finance, the international financial system continues to be centred on Western markets and the US dollar.

The scenario structure builds directly on the Geneva Association's earlier work on geoeconomic fragmentation. Whereas the previous report classified scenarios largely according to the geopolitical evolution of trade fragmentation, the present study focuses on the corresponding evolution of financial market fragmentation. The emphasis therefore shifts from the effects of a reconfiguration in geopolitical trading blocs on re/insurance to the resilience of re/insurers in the face of greater financial market frictions.

Table 4.2 summarises the chosen three scenarios that represent progressively stronger forms of financial fragmentation.

4.3 Illustrative simulation results

4.3.1 Scenario 1: Segmentation – targeted fragmentation of Rival-bloc insurance and reinsurance

In the first scenario, fragmentation is gradual and concentrated on the Rival bloc, which has a small footprint in cross-border re/insurance markets. The practical interpretation is a further tightening of restrictions on cross-border re/insurance activity between geopolitically distant jurisdictions. This could take the form of higher regulatory charges on business ceded to Rival-bloc reinsurers, additional collateral requirements, restrictions on non-admitted insurance, or higher operational costs associated with legal, compliance, and settlement risk.

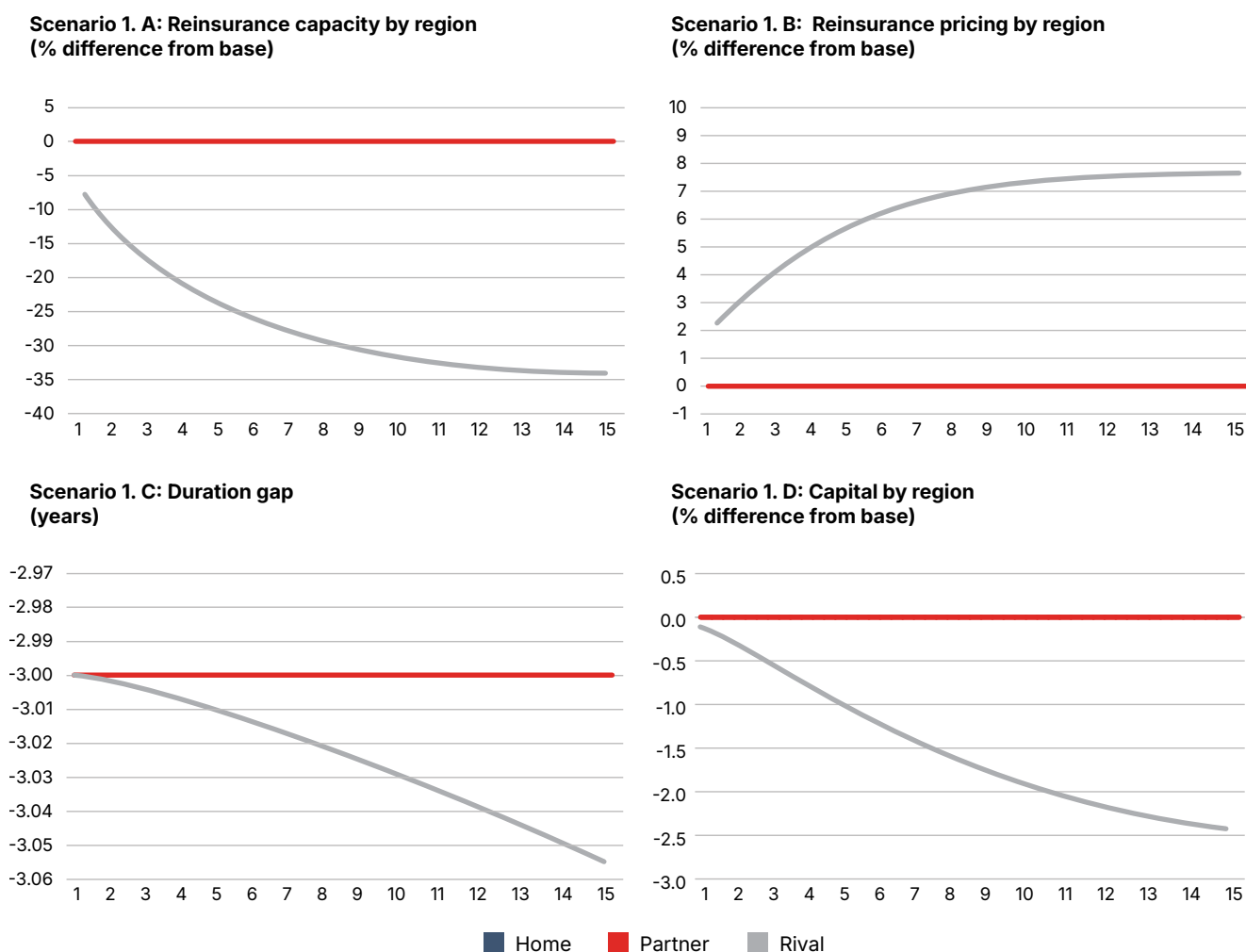
This scenario is closest to a continuation of existing patterns of geopolitical and regulatory divergence. It assumes that the Rival bloc is most affected, while Home and Partner – which account for the bulk of re/insurance capacity – remain broadly integrated. It is therefore best interpreted as a targeted fragmentation scenario: the system becomes more segmented but not systemically stressed given limited spillover effects on the rest of re/insurance sector.

TABLE 4.2: SUMMARY OF THE SCENARIOS

Scenario	Real-world interpretation	Main model mechanism	Intended insight
Segmentation Targeted rival-bloc fragmentation	Geopolitical/regulatory restrictions on rival-bloc re/insurance	Rival-specific geopolitical, capital, and settlement wedges	Fragmentation can localise capacity and pricing effects without system-wide stress
Reallocation Broad-based fragmentation	Gradual reorientation of capital, portfolios, and reinsurance relationships across blocs	Wedges across all blocs plus binding global reinsurance capacity	Fragmentation reallocates risk-bearing capacity and reduces efficiency of global risk pooling
Amplification Disorderly fragmentation	Structural fragmentation as in Scenario 2 plus sudden market stress event	Broad wedges plus rate/spread shock, stress dynamics, and market depth effects	Fragmentation can amplify balance sheet stress when liquidity and capital buffers are strained

Source: Geneva Association

FIGURE 4.1: SMOOTH TRANSITION WITH RIVAL-FOCUSED FRAGMENTATION



Note: Author calculations from calibrated model. The charts show percentage differences from base levels for reinsurance capacity, reinsurance prices, and capital in Home, Partner, and Rival regions. The duration gap is measured in years (base level = 3, assets = 7, liabilities = 10). The horizontal axes measure time periods. Home and Partner blocs are identically impacted in the scenario, hence the blue and orange lines overlap.

Source: Geneva Association

The scenario illustrates the implications of asymmetric regionalisation of insurance impacts, as shown in Figure 4.1.

- First, reinsurance capacity declines in the Rival bloc (panel A) by around 35%, reflecting the increasing cost of deploying capital and writing cross-border business for that region. This is accompanied by a rise in reinsurance prices (panel B) in that bloc of around 8%, as reduced supply meets unchanged demand. By way of comparison, the average annual change in the cost of reinsurance over the past thirty years has ranged between 1% and 4%, depending on the region.⁶⁷
- Second, Home and Partner blocs remain relatively stable (all panels). In the absence of strong feedback or binding global capacity constraints, the reduction in Rival risk-absorbing capacity does not translate into a large reallocation toward other regions. Instead, global reinsurance capacity becomes more segmented.
- Third, balance sheet effects remain contained. While settlement frictions modestly reduce reinsurance recoveries and increase net claims, the absence of stress amplification mechanisms means that assets, liabilities, and capital (panel D) evolve smoothly, with only limited divergence from baseline paths. The duration gap widens for the Rival, but only gradually (panel C).

67 Based on Guy Carpenter Regional Property Catastrophe Rate-On-Line Indices. See: [Artemis 2026](#).

Localised financial fragmentation can meaningfully affect pricing and capacity, but the spillover effects on the global insurance sector are likely to be modest.

A key implication is that financial fragmentation can meaningfully affect pricing and capacity without triggering market-wide instability, particularly when changes are gradual and feedback loops remain muted. The relatively small spillover effects of localised fragmentation are well illustrated by the recent exclusion of Russian re/insurers from global insurance markets following the outbreak of war with Ukraine in 2022.⁶⁸

4.3.2 Scenario 2: Reallocation – broad-based fragmentation and reallocation across blocs

The second scenario broadens the fragmentation process. Rather than increased frictions affecting only the Rival bloc, this scenario assumes a more wide-spread dislocation in cross-border financial activity. In practice, this would correspond to a gradual consolidation of financial claims, investment portfolios, and reinsurance relationships within geopolitically aligned blocs. This could reflect tighter regulatory treatment of overseas reinsurance, reciprocal increases in collateral requirements, higher hedging costs, or shifts in investor preference away from politically distant assets.

Such a scenario could encompass redrawing the pattern of international risk sharing between established and emerging powers, or even a more fundamental shift arising from fragmentation within the prevailing Western alliance. This scenario does not, however, assume a full-scale breakdown of the IMFS. It can occur without wholesale de-dollarisation or the collapse of existing payment infrastructure. Instead, it represents a slow process of financial reorientation: portfolios become more home-biased, reinsurance capacity becomes more regionally allocated, and settlement frictions reduce the effectiveness of cross-border risk transfer.

In model terms, all three country blocs face additional fragmentation frictions, with the largest effects still in the Rival bloc and smaller effects in the Partner bloc. A binding global reinsurance constraint is imposed so that reductions in one region prompt a reallocation elsewhere rather than simply a marginal reduction in total risk-absorbing capacity. Settlement frictions also enter more directly into reinsurance pricing and effective capacity. While there are stronger interlinkages

across model modules than in the first scenario, any resulting turbulence in global financial markets remains limited. The scenario therefore captures a broader but still orderly adjustment in the geography of risk-bearing capacity.

In this case, fragmentation leads not only to market segmentation but to active reallocation of risk-bearing capacity (Figure 4.2).

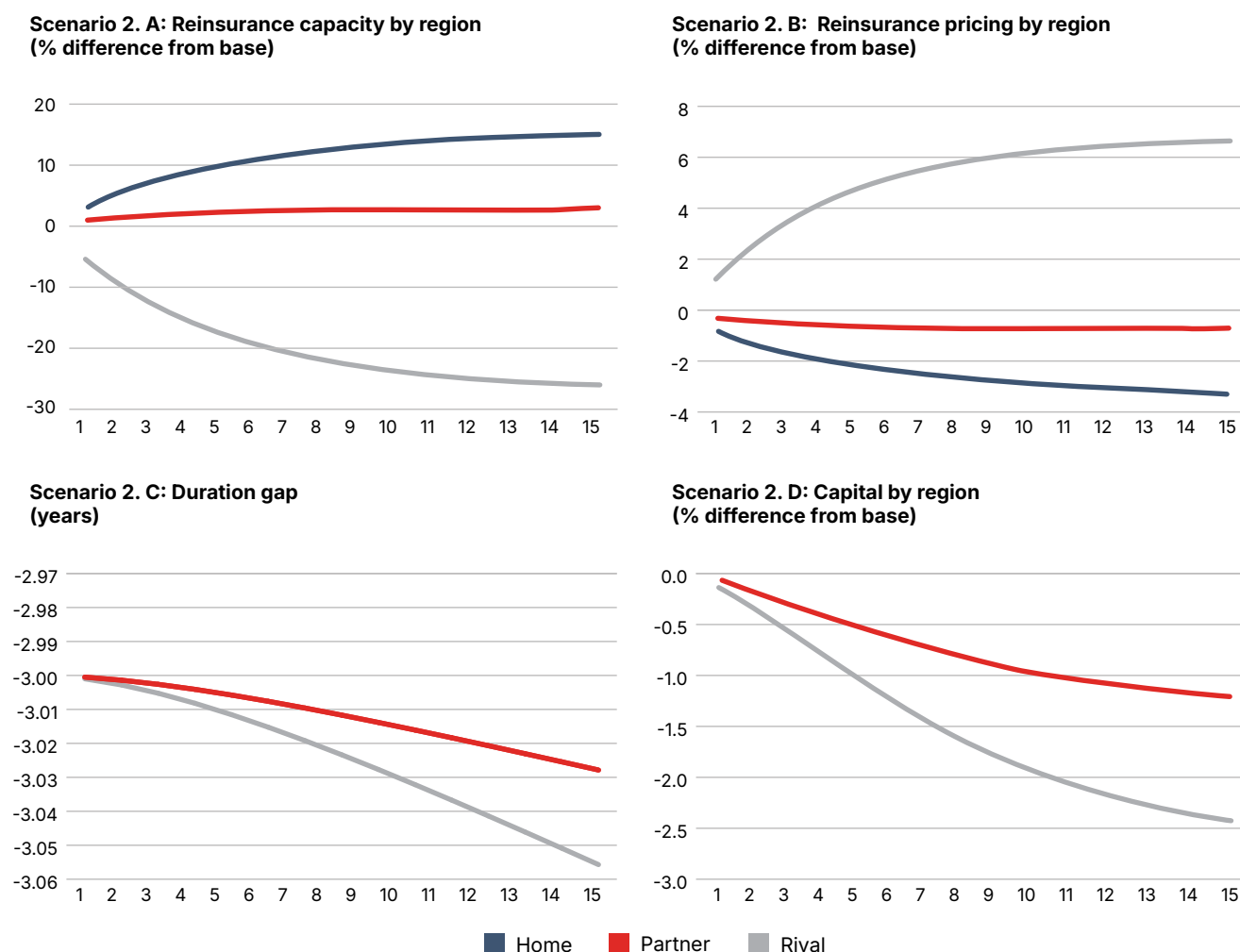
- First, reinsurance capacity shifts away from the Rival bloc toward Home and Partner (panel A), reflecting both relative cost differences and the binding global constraint. Reinsurance business falls by around 30% in the Rival bloc. Much of this relocates to Home, where reinsurance capacity rises by over 15%. This generates a clearer pattern of regional concentration of capacity within aligned blocs.
- Second, reinsurance prices become more dispersed (panel B). Prices rise in the Rival bloc (by around 7%), where capacity is withdrawn, but fall in Home (by 3%) and Partner (by 0.5%) as global capacity is redirected toward politically aligned markets. Fragmentation therefore generates regional price divergence rather than a uniform increase in the cost of protection.
- Third, the effectiveness of cross-border risk transfer declines across the system. Settlement frictions and reduced recoverability weaken the benefits of reinsurance, increasing net claims and gradually raising balance sheet pressure even outside the Rival bloc (panels C and D).
- Finally, balance sheets adjust gradually (panel D), with modest increases in liabilities and some erosion of capital buffers (-1.5 to -2.5%), particularly in regions more exposed to cross-border business. Duration gaps widen gradually in all regions.

Broader financial fragmentation reduces the efficiency of global risk pooling/transfer but is unlikely to trigger widespread instability.

The key implication is that fragmentation reduces the efficiency of global risk pooling/transfer, even in the absence of crisis dynamics.

68 In response to the invasion of Ukraine in February 2022, the EU as well as the US and UK imposed progressively tougher economic sanctions against Russia. Given the limited role of Russia in the global re/insurance market – accounting for less than 1.5% of ceded premiums (Vladimir 2000) – the fallout on the global reinsurance market has been modest.

FIGURE 4.2: SMOOTH TRANSITION WITH BROAD-BASED FRAGMENTATION



Note: Author calculations from calibrated model. The charts show percentage differences from base levels for reinsurance capacity, reinsurance prices, and capital in Home, Partner, and Rival regions. The duration gap is measured in years (base level = 3, assets = 7, liabilities = 10). The horizontal axes measure time periods. Results for duration gap and capital for Home and Partner are identical and the lines therefore overlap.

Source: Geneva Association

4.3.3 Scenario 3: Amplification – disorderly fragmentation with market stress

The third scenario considers a disorderly transition in which ongoing fragmentation coincides with a sudden financial market event or macro-financial shock.⁶⁹ The latter originates in broader financial markets and affects insurers directly through their balance sheets, liquidity needs, and reinsurance relationships. Examples of potential triggers include a major sanctions escalation, reserve freeze, payment-system disruption, or new geopolitical conflict. Alternatively, the disruption may not be related to a policy intervention at all but rather a major market disturbance, such as a credit event (e.g. sovereign or corporate default or failed debt roll-over) or a sharp change in investors' risk appetite.

Heightened worries about the fiscal sustainability of some countries could mean creditors demand higher compensation against future inflation (i.e. inflation risk premia) and for holding long-term government debt instead of rolling over shorter-term bonds (i.e. term premia). Such moves would likely roil financial markets, reduce market depth, and increase the cost of liquidity. In a fragmented system, these effects may be harder to absorb because cross-border capital, collateral, and liquidity are less fungible.

From a modelling perspective, Scenario 3 combines the broad-based wedges in Scenario 2 with an exogenous shock to market interest rates and corporate credit spreads as well as activation of the model's stress dynamics. Specifically, the scenario allows for a period of turbulence involving higher rates and spreads reduce asset values; higher surrender and collateral needs increase liquidity pressures; reduced market depth raises the impact of asset sales; and impaired reinsurance recoveries increase retained losses. Unlike Scenarios 1 and 2, this third scenario models a disruptive 'shock' rather than gradual 'shift'. It shows how financial fragmentation can worsen the balance-sheet consequences of a major capital market shock.

However, financial fragmentation can worsen the balance-sheet consequences of a major capital market shock.

In this scenario, the system adjusts non-linearly, including through amplification effects that operate across re/insurance balance sheets (Figure 4.3).

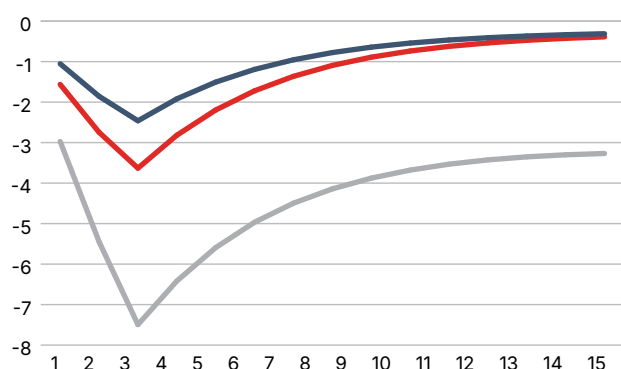
- First, liquidity pressures in insurance increase sharply (panel C), as higher surrenders and collateral demands raise re/insurer funding needs. Settlement frictions further increase net claims, intensifying these pressures.⁷⁰
- Second, forced asset sales emerge (panel B), leading to declines in asset prices. Reduced financial market depth intensifies these effects, particularly in fragmented markets.
- Third, re/insurers' capital positions deteriorate (panel H), in some cases significantly, as falling asset values and rising liabilities compress solvency buffers. This results in higher stress and further increases in surrender rates.
- Fourth, there is rapid recapitalisation (panel H) during and after the shock. Insurers seek to restore capital and balance sheets more quickly in the wake of the financial market shock.

⁶⁹ In reality, fragmentation may emerge endogenously from financial stress as investors re-optimize their balance sheets in response to market conditions. The framework abstracts from these complex dynamics and treats fragmentation primarily as an exogenous shock, albeit one that can be long lasting.

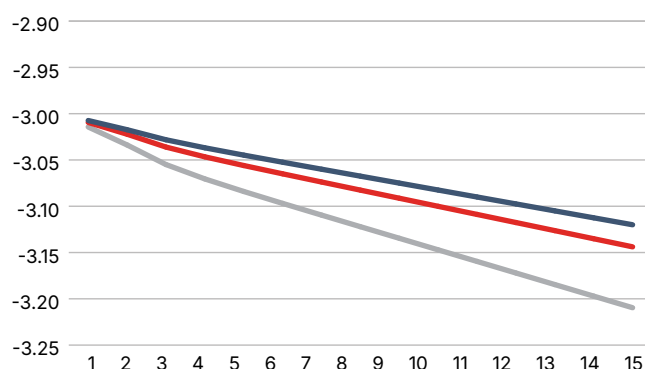
⁷⁰ These pressures emerge first and most strongly in the Rival bloc because the fragmentation shock is calibrated to impose the largest payment, settlement, and capital-mobility frictions there. The Home and Partner blocs experience more limited liquidity pressures initially, although they are still affected indirectly through higher reinsurance costs, portfolio reallocation, and weaker asset prices.

FIGURE 4.3: DISORDERLY TRANSITION WITH BROAD-BASED FRAGMENTATION

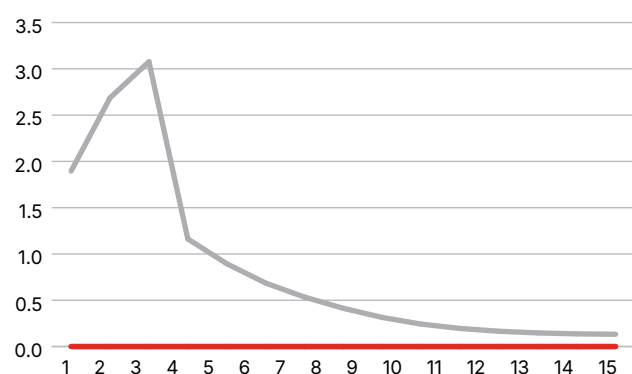
**Scenario 3. A: Asset price impact by region
(% difference from base)**



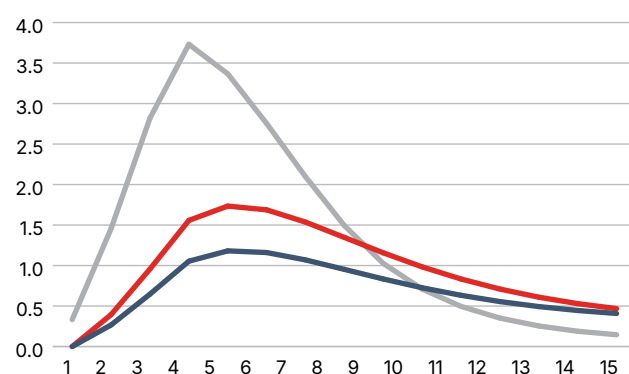
**Scenario 3. B: Asset price impact from forced sales
(% difference from base)**



**Scenario 3. C: Liquidity shortfall
(% of initial assets)**



**Scenario 3. D: Balance sheet stress index
(normal = 0)**

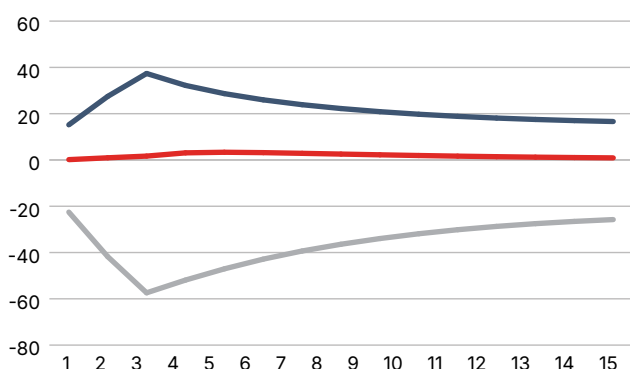


■ Home ■ Partner ■ Rival

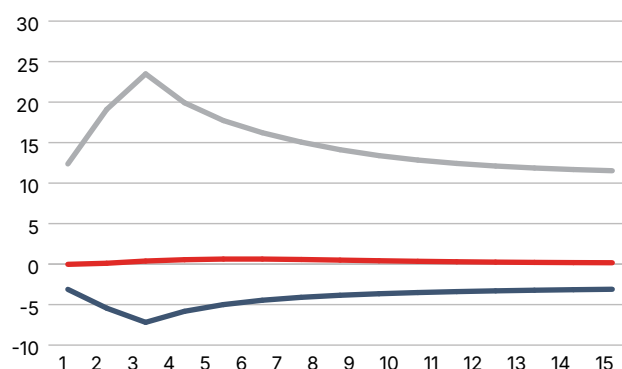
Note: Author calculations from calibrated model. The charts show percentage differences from base levels for asset price impact and forced sales price impact in Home, Partner, and Rival regions. Liquidity shortfall is measured by liquidity need minus liquid assets net of haircuts and is expressed as a percentage of initial assets (100). Balance sheet stress is a dimensionless index with a normal value of zero. The horizontal axes measure time periods. The liquidity impact on Home and Partner blocs is the same and hence the lines overlap.

Source: Geneva Association

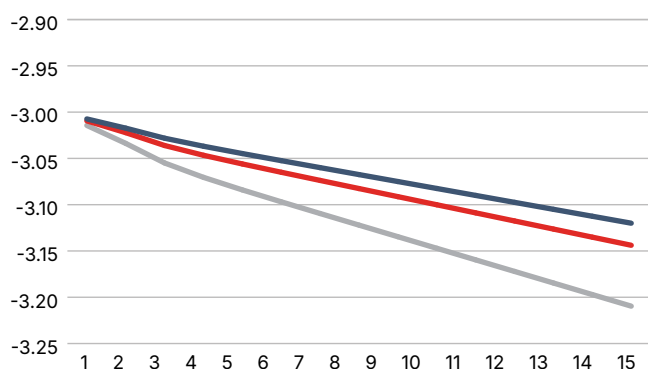
**Scenario 3. E: Reinsurance capacity by region
(% difference from base)**



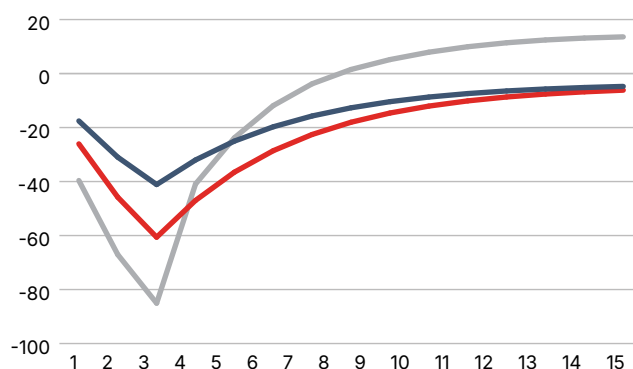
**Scenario 3. F: Reinsurance pricing by region
(% difference from base)**



**Scenario 3. G: Duration gap
(years)**



**Scenario 3. H: Capital by region
(% difference from base)**



■ Home ■ Partner ■ Rival

Note: Author calculations from calibrated model. The charts show percentage differences from base levels for asset price impact and forced sales price impact in Home, Partner, and Rival regions. Liquidity shortfall is measured by liquidity need minus liquid assets net of haircuts and is expressed as a percentage of initial assets (100). The horizontal axes measure time periods.

Source: Geneva Association

This fourth effect deserves further explanation. Recapitalisation happens in Scenarios 1 and 2, but the capital impact is relatively small (between 1 and 2.5%) and gradual. In practice, insurance firms can often stabilise capital at levels consistent with solvency capital requirements through a combination of gradually cutting new business, retaining earnings, reducing dividends, shrinking liabilities, or issuing new equity.

In Scenario 3, the combination of financial stress and liquidity shortfalls threatens to make some firms insolvent, notably in the Rival bloc where capital falls by up to 90% initially. Firms would respond to that impact rapidly, not gradually. The recapitalisation process is accelerated in this simulation, and an imposed solvency floor prevents capital from falling below 1% of liabilities. Economically, this can be interpreted as an emergency capital injection, group support, liability restructuring, or regulatory intervention.

The results illustrate how financial fragmentation could amplify the consequences of an otherwise conventional market shock. Although the initial increases in interest rates and wider credit spreads affect all regions, the interaction between liquidity pressures, asset sales, and capital constraints generates important non-linear effects. Fragmentation reduces the ability of re/insurers to move capital, collateral, and risk-bearing capacity across borders. As a result, global balance sheets can no longer efficiently absorb local shocks.

Importantly, direct market mechanisms – such as duration-gap effects and the price impact of forced asset sales – are relatively similar across regions. The larger losses observed in the Rival region arise not because the underlying asset market shock is fundamentally different, but because the same shock is applied to institutions that possess less capacity to

absorb it. Fragmentation therefore acts primarily as an amplifier rather than an independent source of losses. Small differences in liquidity needs or capital adequacy generate disproportionately large differences in outcomes once feedback effects become active.⁷¹

4.3.4 Cross-scenario insights

Taken together, the scenarios illustrate that the impact of financial fragmentation depends on the nature of any shift and the state of the financial system when it occurs. On its own, a gradual but sustained increase in financial fragmentation would not present a material threat to re/insurers. This is most obvious if the degree of market segmentation was concentrated among smaller rival countries, limiting the scope for spillovers on the broader financial system. Even a broad-based splintering in capital flows leading to less globally integrated financial markets and systems would have manageable, if undesirable, consequences for re/insurers. Indeed, the separation could bring benefits for some if the recycling of capital led to lower reinsurance costs in some regions of the world.

Financial fragmentation exposes life insurers to unexpected duration and liquidity mismatches, while related barriers to cross-border activity limit international re/insurers' ability to diversify risk globally.

Financial fragmentation would pose different challenges across the insurance sector. Life insurers are particularly vulnerable to unexpected duration and liquidity mismatches because of the long-term nature of their liabilities and the assets available to back them. Non-life insurers may be relatively more exposed to fragmentation through cross-border re/insurance markets, catastrophe risk transfer, claims inflation, and disruptions to international capital provision. Barriers to cross-border activities stop reinsurers from spreading insurance risks globally, potentially turning localised or regional spikes into severe concentrations that strain capital and lower risk-absorbing capacity.

Insurance is already heavily segmented among countries by rules and regulation. Thus, cross-border spillovers from increased financial fragmentation would probably be largely contained, especially if regulatory changes were implemented slowly. Moreover, the sector has built up specific institutional architecture – notably

important international insurance hubs – designed to recycle capital and funding across countries that could be re-configured to reflect changes in geopolitical alignment.

Cross-border spillovers from increased financial fragmentation would probably be largely contained, especially if regulatory changes were implemented slowly.

The implication is that material fragmentation effects on the insurance sector would require a much larger geopolitical shock. This could arise in the form of financial fragmentation itself – for example, a sudden escalation in financial sanctions against foreign powers that upended existing payments and settlements systems. Given how crucial Western finance is, particularly the preeminent role of the US dollar, such a major rupture seems unlikely, at least in the near term. Instead, the source of the disturbance could be less direct, with investors reacting to rising geopolitical tensions by retreating from certain asset classes, including government and corporate securities of rival countries. Such a sudden change in investor risk appetite – perhaps linked to a particular financial market event like a technical default or failed auction – would translate into a sharp repricing in financial assets.

As the third scenario highlights, the combination of significantly higher interest rates, wider credit spreads, and more segmented capital markets would be much more disruptive for the re/insurance sector. In those circumstances, some insurers' balance sheets could come under stress as liquidity pressures intensify, potentially weakening their solvency buffers. Fragmentation need not be widespread to have global consequences: shocks can be geographically concentrated but financially contagious.

⁷¹ This asymmetric outcome reflects the calibration of Scenario 3 rather than an assumption that liquidity stress is inherently confined to one region. Alternative calibrations could generate broader or more synchronised liquidity pressure across all blocs.

5

Strategic industry responses and public policy considerations



Strategic industry responses and public policy considerations

Strategic measures can strengthen the industry's resilience, preserve the benefits of international diversification, and allow re/insurers to remain globally active under more segmented financial conditions.

The preceding analysis suggests that global financial fragmentation is unlikely to manifest as a single discrete event. Rather, it is better understood as a continuum of structural change, ranging from gradual regionalisation of financial markets to more abrupt and disorderly episodes of market stress.

Moderate-to-severe scenarios are decision-useful because they help identify vulnerabilities, stress points, and strategic options. By contrast, planning around highly costly and unlikely tail outcomes could encourage responses that erode efficiency and weaken the diversification benefits central to re/insurers' business models. This section therefore focuses on strategic responses that remain useful across plausible fragmentation pathways. The aim is not to optimise for an extreme end-state, but to identify measures that strengthen resilience, preserve the benefits of international diversification where possible, and allow re/insurers to remain globally active under more segmented financial conditions.

5.1 Strategic responses of re/insurers

Further fragmentation would make the operating environment harder to predict and navigate. For re/insurers, this implies a shift in their underlying optimisation strategy. In a highly integrated system, insurance carriers maximise value by:

- Exploiting global diversification in underwriting and investment.
- Allocating capital flexibly across jurisdictions.
- Accessing deep, liquid international financial markets.

In a fragmented system, these objectives must be balanced against a new set of constraints:

- Reduced fungibility of capital
- Impaired cross-border risk transfer
- Greater exposure to liquidity and settlement risk

Further fragmentation would make the operating environment harder to predict and navigate. For re/insurers, this implies a shift in their underlying optimisation strategy.

Strategic responses therefore need to move from a model of global efficiency toward one of resilient regional optimisation, in which re/insurers remain globally active but are structured to operate under more segmented financial conditions. That is entirely sensible in order to safeguard re/insurers' solvency and best enable them to make good on their promises to policyholders. But the macroeconomic consequence could be a weakening of one of the international insurance sector's core stabilising functions: the efficient transfer of risk across borders.

5.1.1 Reconfiguring reinsurance and risk transfer strategies

Fragmentation directly affects the availability, pricing, and reliability of reinsurance. Primary insurers may need to adapt by:

- Diversifying reinsurance counterparties across jurisdictions, reducing exposure to any single geopolitical bloc.

- Increasing the use of regional reinsurance hubs, particularly where global capacity becomes less fungible.
- Reassessing counterparty credit risk, especially where settlement frictions or legal enforceability may be impaired by divergence in regulatory regimes.
- Stress-testing reinsurance recoverables, including under scenarios of delayed payment or partial impairment.

In practice, this may lead to a gradual shift toward more redundant and layered reinsurance structures, trading off cost efficiency for robustness.

5.1.2 Adapting capital structures

A central consequence of financial fragmentation is reduced international capital mobility. Re/insurers may therefore need to shift away from highly centralised capital models toward more regionally self-sufficient structures.

This could involve:

- Holding higher levels of pre-positioned capital within key jurisdictions, reflecting potentially tougher ring-fencing requirements.
- Increasing the use of locally incorporated and separately capitalised subsidiaries rather than branches.
- Developing pre-positioned liquidity buffers in major operating regions.

While such changes may reduce capital efficiency, they can materially improve insurers' financial resilience in scenarios where cross-border transfers become constrained, especially in the face of financial market volatility.

5.1.3 Repositioning investment strategies

Fragmentation alters both the opportunity set and the risk characteristics of insurers' asset portfolios. Strategic responses may include:

- Greater regional diversification within politically aligned blocs, rather than global diversification per se.
- Increased focus on liquid, high-quality assets that can be mobilised under stress.

- Reassessment of currency exposures and hedging strategies, particularly where FX funding costs become more volatile.
- More cautious use of illiquid or complex alternative assets, especially where valuation and exit risks may become amplified.

Fragmentation alters both the opportunity set and the risk characteristics of insurers' asset portfolios.

For life insurers in particular, fragmentation raises important challenges for asset-liability management, including the ability to maintain duration matching under more volatile and segmented market conditions.

5.1.4 Strengthening liquidity and balance-sheet resilience

As discussed in Section 3 and the model simulations, fragmentation can amplify liquidity pressures through the interaction of:

- Policyholders' surrender behaviour
- Collateral requirements
- Reduced market depth

Post-GFC regulatory reforms and sector-wide practices have materially strengthened capital, liquidity, and risk-management practices across much of the global insurance industry.⁷² However, the potential amplification effects of financial fragmentation on insurers' balance sheets may not have been expressly considered. Firms may therefore need to:

- Enhance liquidity stress-testing frameworks, incorporating fragmentation-specific scenarios.
- Maintain larger and more geographically distributed liquidity buffers.
- Develop thorough contingency plans for asset sales under stressed and illiquid market conditions.⁷³

In addition, insurers should carefully assess exposures to hidden or synthetic leverage, including through derivatives and structured assets, which may become more difficult to manage in fragmented markets.

⁷² Several insurance sector regulators undertake regular stress tests of insurers to assess how well carriers are able to cope with severe but plausible adverse developments in financial and economic conditions. See for example: [EIOPA 2024](#) and [PRA 2025](#).

⁷³ Stress testing must extend beyond financial variables to include sanctions regimes, reinsurance enforceability, and diversification failure under fragmentation scenarios. [Allianz 2026](#).

5.1.5 Revising operational and governance processes

Fragmentation is not only a balance sheet phenomenon but an operational one. Firms may need to strengthen:

- Legal and contractual frameworks governing cross-border business.
- Data and reporting systems to manage more complex multi-jurisdictional structures.
- Governance processes, ensuring that geopolitical and regulatory risks are integrated into strategic decision-making.

At the board level, this requires a more explicit consideration of geopolitical risk as a core business variable rather than an external backdrop.

Company boards should treat geopolitical risk as a core business variable rather than an external backdrop.

5.2 Policymakers: Balancing economic resilience and efficiency

Policymakers face a fundamental trade-off between enhancing domestic financial resilience and preserving the benefits of international risk sharing and capital mobility.

Measures such as capital localisation, collateral requirements, and restrictions on cross-border activity may strengthen local stability but can also:

- Reduce global diversification.
- Increase the cost of insurance.
- Potentially amplify systemic risk through segmentation.

The upshot is that insurance could become less available and affordable in the markets and segments most affected by withdrawn capacity or higher reinsurance costs, widening already significant protection gaps for some perils. The impact would not be uniform: it would fall hardest on households, firms, and communities with limited financial buffers, leaving them more exposed to catastrophic losses they are least able to absorb.

Policymakers must avoid excessive financial fragmentation, which can undermine resilience, while using institutional measures to mitigate the risk of widespread instability.

Policymakers must avoid excessive financial fragmentation, which may undermine the resilience they seek to promote. Even in a world of weaponised interdependence, institutional measures can still mitigate the potential for widespread instability.⁷⁴ Countries remain deeply interconnected through global capital markets, production networks, payment systems, commodity markets, and cross-border investment. This continued interdependence sustains several mutual incentives for cooperation, even if those are likely to rest less on broad-based multilateralism than on pragmatic, issue-specific coordination aimed at managing common risks.

5.2.1 Maintaining cross-border supervisory cooperation

Given the global nature of re/insurance markets, supervisory cooperation remains crucial. Priorities include:

- Maintaining regulatory equivalence frameworks and mutual recognition arrangements.
- Strengthening information-sharing between supervisors, particularly in relation to cross-border groups and reinsurance structures.
- Ensuring consistent approaches to valuation, capital, and liquidity standards where possible.

Fragmentation of supervisory frameworks could otherwise compound financial fragmentation and increase systemic risk.

74 Papaconstantinou 2026.

5.2.2 Safeguarding payment and settlement infrastructure

As discussed in Section 2, fragmentation of payment systems and financial infrastructure could be a key transmission channel. Policymakers should seek to:

- Preserve the interoperability of cross-border payment systems.
- Minimise the risk of disruptions to insurance-related flows, including premiums, claims, and reinsurance recoveries.
- Support the development of robust alternative settlement mechanisms where necessary.

Given the importance of timely claims payments and reinsurance recoveries, disruptions in this area could have outsized effects on the insurance sector.

5.2.3 Industry–policy coordination

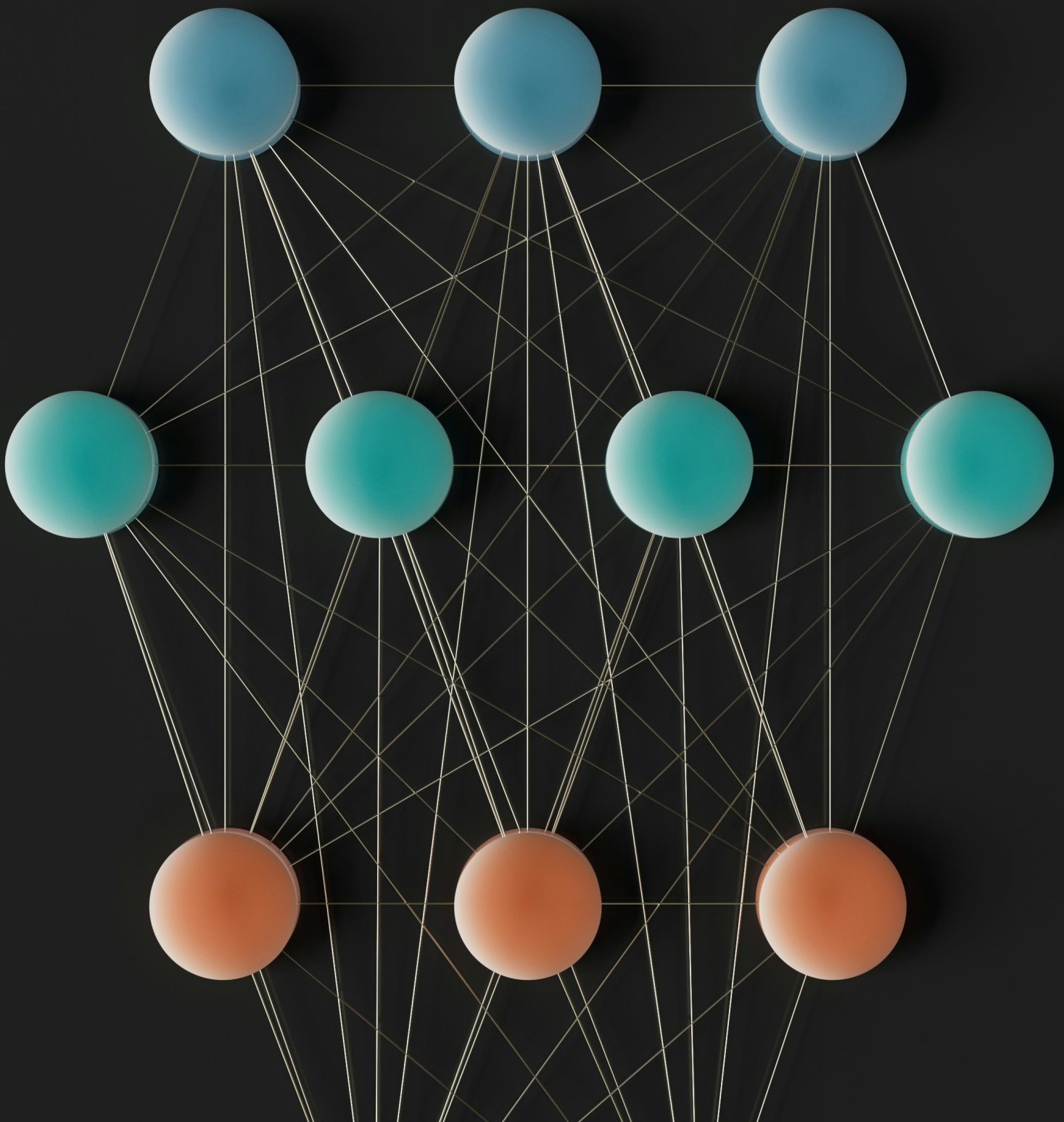
Fragmentation risks arise at the intersection of private sector behaviour and public policy. Effective responses will therefore require close coordination between industry and policymakers, including:

- Dialogue on the design of capital and liquidity frameworks.
- Cooperation on cross-border crisis management arrangements.
- Joint efforts to preserve the core infrastructure supporting global insurance markets.

Industry bodies, such as the Geneva Association, can play an important role in facilitating this dialogue and developing shared analytical frameworks.

6

Conclusion



Conclusion

The scenarios presented suggest that financial fragmentation is best understood as a change in the underlying conditions governing cross-border risk transfer rather than resulting from a single disturbance.

Building on the Geneva Association's earlier report on geoeconomic fragmentation, this report provides a complementary perspective on the implications of increasingly regionalised capital markets. The earlier work examined how geopolitical forces may reshape trade in goods and industrial organisation. This study examines how similar forces may affect international financial markets and the impacts on re/insurance.

Global financial fragmentation does not imply the end of international insurance markets but signals a transition toward a more complex and less predictable operating environment.

Global financial fragmentation does not imply the end of international insurance markets. However, it does signal a transition toward a more complex and less predictable operating environment. To illustrate the implications of global financial fragmentation for the re/insurance sectors, this report considered three stylised scenarios. These are not intended as forecasts, but as structured thought experiments designed to isolate the key transmission channels through which fragmentation would affect the re/insurance sector.

Collectively, the scenarios suggest financial fragmentation is best understood as a change in the underlying conditions governing cross-border risk transfer rather than resulting from a single disturbance. Its effects vary according to the scale and breadth of the fragmentation, the channels through which it is transmitted, and whether it unfolds gradually or under more disruptive conditions. The main implication is that fragmentation may remain manageable in a stable financial environment but becomes more consequential when it impairs the system's capacity to absorb and redistribute risk.

Insurers possess several structural features that may mitigate fragmentation-related stress relative to other financial institutions. These include generally stable liability structures, lower reliance on short-term whole-sale funding, substantial regulatory capital buffers, and the long-term nature of many investment liabilities. In many jurisdictions, post-GFC reforms have also strengthened liquidity management and enterprise risk-management practices. The significance of fragmentation therefore lies less in creating entirely new vulnerabilities than in altering the interaction between existing balance-sheet structures and market conditions and the implications for optimal risk sharing.

For re/insurers, the central challenge is to remain globally active while becoming structurally resilient to:

- Regional segmentation of markets.
- Constraints on capital mobility.
- Episodic periods of financial stress.

For policymakers, the challenge is to strike a balance between national resilience and the preservation of global risk-sharing mechanisms.

The interaction between these two sets of responses will ultimately determine whether fragmentation leads to a more stable, regionally anchored system, or a less efficient and more volatile global re/insurance landscape.

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