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Global Financial Fragmentation: Implications for the insurance and reinsurance industries

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Geoeconomic fragmentation – the growing influence of geopolitical considerations on economic relations – is reshaping the global economy. As earlier Geneva Association analysis noted, this fragmentation to date has been most visible in more restrictive trade in goods and shifts in foreign direct investment as supply chains are reconfigured.[1] The fallout on re/insurers has so far been modest, but the dynamic is now slowly extending further into finance. Regulatory divergence, the wider use of sanctions, changes to payment infrastructure, and shifts in capital allocation are all weakening cross-border integration in capital markets and financial intermediation.

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. Payment systems, reserve allocation, reinsurance relationships, and capital flows may continue to reconfigure only gradually; however, a transition to a more financially fragmented system could prove especially challenging given increased financial leverage and the growing complexity of modern capital markets.

The geoeconomics of financial fragmentation

Official data show that the rapid expansion in cross-border financial positions during the 'hyper-globalisation' of the mid-1990s to the 2008 Global Financial Crisis has largely stalled (Figure 1). Since 2008, the ratio of global external assets and liabilities to world GDP has broadly plateaued, with some modest retrenchment recently. At this level of aggregation, clear signs of fragmentation along geopolitical lines are hard to detect.[2] But investors are allocating less capital to countries with greater foreign-policy differences, and greenfield FDI between western countries has risen since 2016 while flows between the eastern and western blocs have declined.[3]

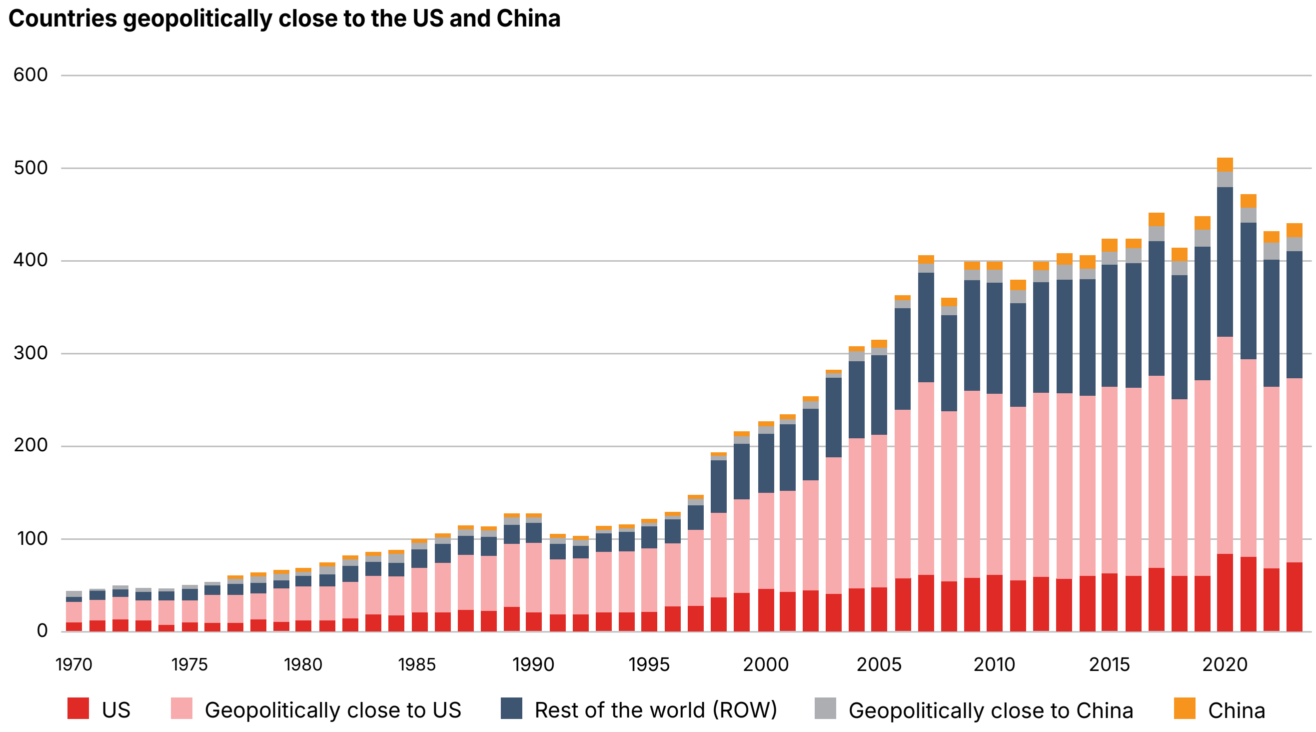
While the US dollar still dominates debt contracts and trade invoicing, its share of official reserves has declined as gold and non-traditional currencies have grown. Geopolitically distant countries are also increasingly invoicing trade in other currencies. The international monetary and financial system is ultimately underpinned by trust, and the world is, arguably witnessing the largest challenge to that trust-based system since World War II.

Financial plumbing once seen as neutral is increasingly used as a source of leverage: China and Russia are advancing their own payment systems, over 90% of Russia-China trade now settles in rubles and yuan, and stablecoins reduce dependence on the US banking system.[4] Regulation is diverging again through localisation and ring-fencing rules and protracted country-level implementation of international frameworks such as Basel III and the Insurance Capital Standard. When capital movement requires political approval rather than responding to market forces, global integration loses efficiency by design.

Investors cutting exposure to politically distant countries would likely raise sovereign risk premia, especially for borrowers whose debt is already elevated. The aggregate global ratio of general government gross debt to GDP approached 94% in 2025 and is set to exceed 102%, driven by significant increased indebtedness among advanced economies, especially the US.[5] 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.[6]

1 Schanz 2025.
2 Chari et al. 2025.
3 IMF 2023 and Boeckelmann et al. 2024.
4 Giustra 2026.
5 IMF 2026.
6 Ari 2017.

FIGURE 1: INTERNATIONAL FINANCIAL INTEGRATION BY GEOPOLITICAL ALIGNMENT (% OF WORLD GDP)



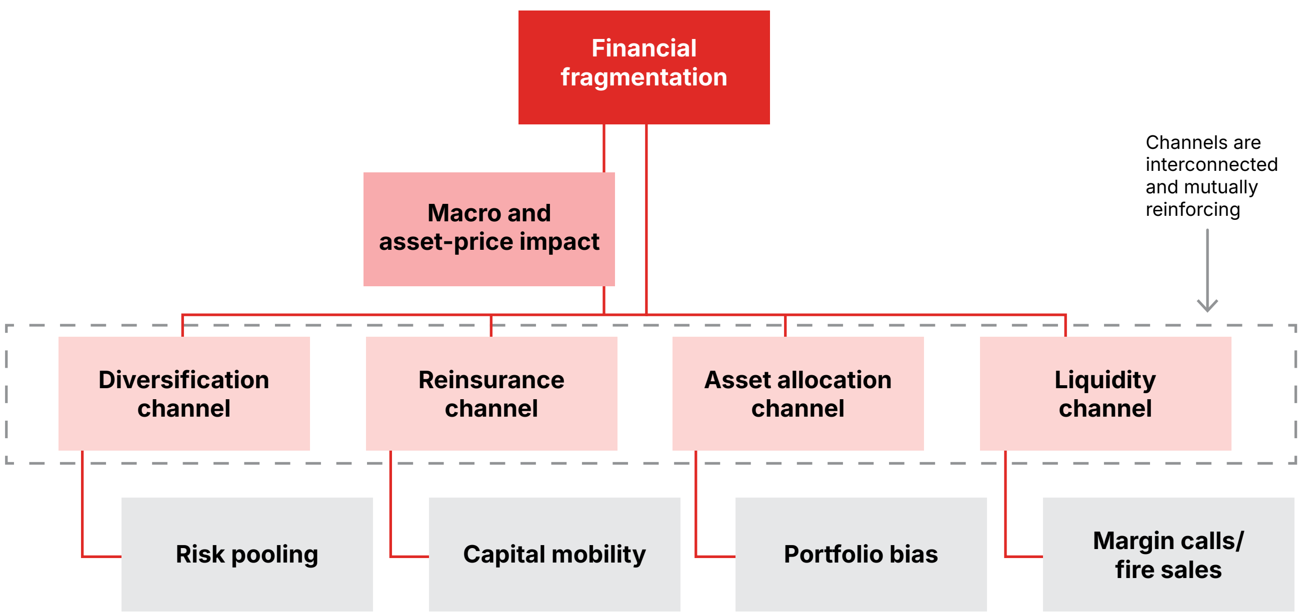
Notes: The chart plots the sum of the stock of total gross external financial assets and liabilities relative to world GDP. Latest observation: 2023. Geopolitical alignment based on UN voting patterns.

Source: CEPR[7]

Transmission channels to insurance and reinsurance markets

Fragmentation can affect both sides of re/insurers' balance sheets and the networks through which risk is pooled and transferred. We identify four transmission channels (Figure 2).

FIGURE 2: FRAGMENTATION TRANSMISSION CHANNELS



Source: Geneva Association

7 Chari et al. 2025.

TABLE 1: 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

- **Cross-border diversification:** Regulation largely determines whether insurers can write business cross-border or whether insurance groups need to rely on local entities, branches, or fronting arrangements to access international risk pools. More restrictive rules would reduce geographical diversification, raising risk concentration, technical reserves, compliance costs, and the cost of capital.

- **Risk transfer and reinsurance networks:** Reinsurance is inherently international, and the major insurance hubs account for close to 40% of the global reinsurance market.[8] Restrictions on cross-border flows, divergent prudential standards, ring-fencing of local capital, and sanctions all impair reinsurers' ability to intermediate risk internationally. This in turn pushes up reinsurance costs.

- **Portfolio allocation:** Insurers already show strong home bias – life insurers typically hold 40–50% of bond portfolios domestically.[9] Fragmentation accentuates this by reducing exposure to foreign and emerging market credit and eroding geographical asset diversification benefits.

- **Liquidity, duration, and balance-sheet dynamics:** Segmented financial markets make it harder to access foreign currency funding, mobilise cross-border collateral, and deploy derivatives margining. When rates rise, surrender incentives increase and liability duration shortens; in a fragmented environment, the asset-side adjustment is slower and more constrained, linking duration gaps to liquidity pressure, fire-sales, and falling asset prices. Hidden leverage and valuation uncertainty in alternative assets add to potential illiquidity-induced solvency strains.

Quantitative modelling framework and scenario results

We develop a small analytical model with three regions – Home, Partner, and Rival – and three modules: reinsurance capacity and cross-border risk transfer; primary insurer balance sheets and liquidity; and macro-financial asset pricing and market liquidity. Financial fragmentation enters through frictional 'wedges' – e.g. prudential divergence, capital localisation, settlement frictions, FX funding fragmentation, and geopolitical risk premia. The model does not forecast; it runs stylised experiments across three progressively stronger scenarios (Table 1).

Scenario 1 – Segmentation: Fragmentation is concentrated on the Rival bloc, which has a small footprint in cross-border re/insurance. Rival reinsurance capacity declines by around 35% and prices rise by around 8% – against an average annual change of 1–4% globally over the past 30 years. Home and Partner blocs remain stable, and balance-sheet effects are contained: capacity becomes more segmented rather than reallocated. Pricing and capacity are affected without market-wide instability.

Scenario 2 – Reallocation: All country blocs face frictions, and a binding global reinsurance constraint forces active reallocation of risk-absorbing capacity. Rival reinsurance business falls by around 30%, much of it relocating to Home, where capacity rises by over 15%. Prices rise around 7% in Rival but fall 3% in Home and 0.5% in Partner, showing regional divergence rather than a uniform increase in the cost of protection. Capital buffers erode modestly by -1.5 to -2.5%, and duration gaps widen everywhere.

8 Based on data from the London Market Group, Swiss Re and Atlas.
9 Corradin et al. 2025.

Scenario 3 – Amplification: Broad-based fragmentation coincides with a shock to interest rates and credit spreads. Liquidity pressures rise sharply as surrenders and collateral demands increase; forced sales depress asset prices in shallower markets; capital deteriorates, further raising surrenders; and rapid recapitalisation follows. Insurance capital in the Rival bloc falls by up to 90% initially, implying emergency capital injection, group support, or regulatory intervention. Global balance sheets can no longer efficiently absorb local shocks.

Strategic responses of re/insurers and public policy considerations

In a fragmented system, global diversification, flexible capital allocation, and access to deep international markets must be balanced against reduced capital fungibility, impaired cross-border risk transfer, and greater liquidity and settlement risk. Strategic responses by re/insurers need to move from a model of global efficiency toward resilient regional optimisation. These potentially include:

- **Reconfiguring reinsurance and risk transfer:** Diversify counterparties across jurisdictions, use regional hubs, reassess counterparty risk where enforceability may be impaired, and stress-test recoverables under delayed or partial payment – trading cost efficiency for robustness.
- **Adapting capital structures:** Hold more pre-positioned capital in key jurisdictions, favour locally incorporated subsidiaries over branches, and build liquidity buffers in major operating regions.
- **Repositioning investment strategies:** Diversify within politically aligned blocs, prioritise liquid, high-quality assets mobilisable under stress, reassess currency hedging, and use illiquid alternatives more cautiously. Duration matching is a particular challenge for life insurers.
- **Strengthening liquidity resilience:** Extend stress testing beyond financial variables to sanctions regimes, reinsurance enforceability, and diversification failure; hold larger, geographically distributed buffers; plan contingencies for asset sales in illiquid markets; and assess hidden or synthetic leverage.
- **Revising governance:** Strengthen cross-border legal frameworks and data systems and treat geopolitical risk at board level as a core business variable rather than an external backdrop.

Policymakers face a trade-off between domestic resilience and international risk sharing. Capital localisation and restrictions on cross-border activity may strengthen local stability but reduce diversification, increase the cost of insurance, and widen protection gaps, with the biggest consequences for those with limited financial buffers. Specific priorities include maintaining supervisory cooperation (equivalence, mutual recognition, information-sharing on cross-border groups); safeguarding interoperable payment and settlement infrastructure on which premiums, claims, and recoveries depend; and coordinating more closely between industry and policymakers on capital and liquidity frameworks and cross-border crisis management.

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