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MAPFRE Economics

Posts

Introduction

In this thirteenth biannual publication, we highlight a selection of four articles that analyze solvency regimes throughout the world, the current situation of monetary policy, the challenges posed by trending and current risks, and finally, under the title "How to facilitate longer working lives and flexible transitions to retirement" we have the special collaboration of Carlos-María Alcover, Professor of Group and Organizational Psychology at Universidad Rey Juan Carlos.

In this edition MAPFRE Economics invites you to read the first of its articles "Insurance solvency regulation systems outlook", which explains the evolution of insurance solvency regulation systems at the global level, emphasizing the transition toward risk-based schemes that seek to guarantee the financial stability of the insurance industry, all in the context of a regulatory environment that considers the particularities of financial conglomerates and the need for international oversight. You can also consult the I-RBR summary index that provides an identification of the degree of progress of the different countries and their regulatory frameworks in terms of their steps from basic risk-based regulation (Solvency I), toward regulation focused on Solvency II-type schemes.

The second article in this edition, "Monetary Policy", draws the current economic outlook in which the United States Federal Reserve has maintained interest rates based on macroeconomic data and notes that the monetary policy timetable appears less favorable than expected, with risks of fewer cuts than expected. On the other hand, the ECB remains in a reflective episode, waiting for internal and external signs of change that will allow it to take the first steps towards a somewhat divergent easing process.

The third article, "Risk environment 2024-2026: classification and analysis", invites us to reflect on short and long-term vulnerabilities and risks, seeking the literary consensus that revolves around them, where geopolitical and financial risks stand out with higher probability and severity compared to previous years, along with other persistent risks such as inflation, energy market and climate change risks, within the general economic, environmental, social and technological risks.

The fourth and final article, "How to facilitate longer working lives and flexible transitions to retirement", attempts to contextualize the extension of working life by considering the sociodemographic characteristics of today's society, marked by population aging and, in particular, by the significant increase in life expectancy at 65 years of age.

We hope these articles in the new edition of the magazine capture readers' interest and offer a new opportunity to explore the dynamic and constantly evolving economic outlook in insurance.

Insurance Solvency Regulation Systems Outlook

Author: MAPFRE Economics

Summary of the conclusions of the
MAPFRE Economics report
Insurance Solvency Regulation Systems Outlook
Madrid, Fundación MAPFRE, march 2024

Insurance is an activity subject to prudential regulation and supervision as well as resolution mechanisms mandated at the international level. In this regard, it is just like the activities conducted by other financial institutions, as it not only receives and manages third-party financial resources, but also plays a key role in aspects that could generate disruptions in the economic system.

Over the last few decades, prudential regulation in the financial system (and that applicable to the insurance industry) has been subject to a continual adjustment process towards risk-based systems that seek to align public-interest objectives with the creation of incentives to obtain comparative advantages (in a pro-competitive environment), based on the quality of financial institutions' risk management.

In the insurance sector, the global initiative for convergence with the rest of the financial system has had three key dimensions. The first consisted of the International Association of Insurance Supervisors (IAIS) drafting *regulation and supervision principles* and standards, which have gradually been implemented by member countries of that standard-setter organization. The IAIS's plan to establish an Insurance Capital Standard (ICS), which is expected to be implemented in 2025 (under the name of Prescribed Capital Requirement, PCR), falls within this context. The second dimension, at the regional and principal markets level, was the determination to **modernize existing solvency regulation systems.** This framework gave rise to the European Solvency II plan, the Solvency Modernization Initiative (SMI) by the NAIC (National Association of Insurance Commissioners) in the United States,

and the development of the Swiss Solvency Test, among others. And the third of these dimensions, following the financial crisis unleashed in 2008 with the collapse of Lehman Brothers in the United States and subsequent sovereign debt crisis in the European Union, was the determination to implement **macro-prudential surveillance measures** in order to limit potential systemic effects derived from insurance activity.

Currently, most insurance markets are immersed in ongoing regulatory adjustment processes that are still guided by the three dimensions mentioned above: the process of regulatory standardization and supervisory practices; the modernization of solvency systems toward risk-based models; and progress toward the establishment of a global solvency system (similar to that used in the banking sector) that will contribute to maintaining global financial stability.

Chart 1. General components of the regulatory frameworks based on insurance risks

However, the various markets are moving toward solvency frameworks at the global level that attempt to cover, in general terms, four fundamental elements. First, a set of **quantitative requirements** in terms of capital, technical provisions, investments, and reinsurance that guarantee insurance companies' financial position. Second, a series of **corporate governance** standards that promote more professional (risk-based) management of companies, with the belief that this is a contributing factor in limiting the probability that a company will become insolvent.

Third, **prudential regulatory standards** that could impact competition and innovation, and therefore the market's efficiency, such as those regulating products that could be brought to market and their conditions (structure and price). And finally, a series of **transparency and information disclosure standards,** which seek to improve how the market discipline mechanism works, as an additional element to stimulate companies' management to reduce the likelihood of insolvency (see Chart 1).

Analysis by region

Currently, in the **United States**, most states have decided to incorporate the Risk-Based Capital (RBC) model into their respective legislation without substantial changes. The qualitative requirements are based on the NAIC's "Risk Management and Own Risk and Solvency Assessment Model Act." It should be noted that the regulatory model designed by the NAIC emphasizes the assessment of assets and liabilities, together with qualitative and quantitative regulations, and includes limits applicable to investments, as well as prerequisites for the launch of new products. All the states, without exception, apply regulatory limits to investments and prerequisites for the launch of new products, following the NAIC model or with their own adaptations.

In **Latin America**, generally speaking, progress continues in terms of the incorporation of qualitative requirements into insurance companies' risk management (Pillar 2 of the Solvency II-type models), although Solvency I-type regulation systems persist in terms of quantitative requirements (Pillar 1). In them, the determining factor of the capital requirement is defined by the underwriting risk, with a system based on one or more factors applied to magnitudes considered representative of the level of exposure to insurance risk, such as premiums, loss ratios (in Non-Life insurance), or mathematical provisions and/or capital at risk (in Life insurance). Additional rules on governance and investments have been introduced in order to control financial risks, diversify and spread assets, and establish specific regulatory limits.

In the **Asia-Pacific** region, with the exception of the Philippines, which introduced mandatory implementation of an ORSA in 2022 for large companies, there has not been significant regulatory progress with respect to the last assessment completed with information from 2017. Australia and Japan, two mature and developed insurance markets, continue to show the greatest degree of regulatory development. Japan has made significant progress in relation to how insurance companies and financial institutions treat risks, with the goal of introducing a solvency system based on Solvency II-type economic value in 2025.

In the **European Union**, eight years after its implementation, on December 14, 2023, the European Parliament and the Council reached an agreement on the European Commission's proposal to amend the Solvency II regulatory framework. The purpose of this proposal is to adjust the aspects deemed necessary, and in particular, to give the insurance industry better incentives to make long-term investments, in line with the Capital Markets Union initiative, making the financial strength of insurance companies less sensitive to short-term market fluctuations and improving the calculation of certain risks,

including those related to climate change. Finally, it should be noted that following the **United Kingdom's** exit from the European Union, the country is in the process of reviewing the Solvency II system applicable to the UK. The Prudential Regulation Authority (PRA) is currently conducting the corresponding Quantitative Impact Studies (QIS) in order to gather the information necessary to determine which reforms would be the most appropriate to meet the goals set by the country's government. However, for now the applicable system is similar to Solvency II.

Based on the analysis of prudential regulations applicable to insurance companies and their groups in a set of countries in several regions of the world (United States, Latin America, Asia-Pacific, United Kingdom, and European Union), as well as their modifications since MAPFRE Economics' last assessment in 2017[1], the progress towards risk-based regulation achieved since then has been incorporated. Following the methodology used in the previous study, the analysis considers a total of twenty-three relevant factors[2] that characterize the different solvency regulation systems, which are presented, to a greater or lesser extent, based on how much these systems have evolved towards pure risk-based systems. These factors allow us to calculate a synthetic indicator known as the **Risk-Based Regulation Proximity Index** (I-RBR).

The I-RBR seeks to identify the degree of progress of the various regulatory frameworks in terms of their transition from basic risk-based regulation (Solvency I-type) to regulation focused on more precise risk management and measurement, strengthening corporate governance, and greater transparency and disclosure of information to the market (Solvency II-type).

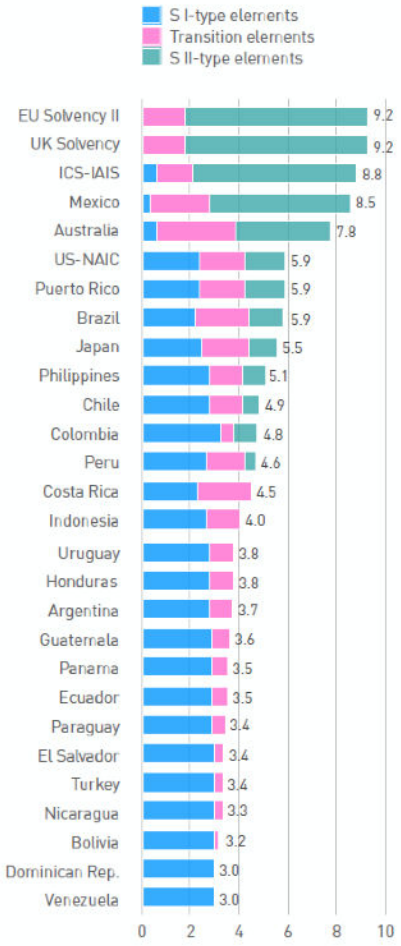
In general terms, the simplest systems (like Solvency I) are characterized by having the underwriting risk as the determining factor of the solvency capital requirement, with a system based on one or more factors applied to magnitudes considered representative of the level of exposure to insurance risk, such as premiums, loss ratios in Non-Life insurance, or mathematical provisions in Life insurance. This requirement is accompanied by a series of additional governance and investment standards to limit market and credit risks by introducing specific regulatory limits on diversification and dispersion, as well as a closed-list classification of assets eligible to cover the obligations arising from insurance contracts. Meanwhile, systems further developed towards a purely risk-based prudential regulatory system (such as Solvency II) are characterized by a greater number of risk factors considered,

1 See: MAPFRE Economic Research (2018), *Insurance Solvency Regulation Systems Outlook*, Madrid, Fundación MAPFRE
2 See: MAPFRE Economic Research (2024), *Insurance Solvency Regulation Systems Outlook*, Madrid, Fundación MAPFRE. Table 2.1 page 28.

and they introduce more complex scenario simulation techniques for calculating the specific capital risk weights for underwriting, market, and credit risk, consideration of risk interdependence, and the use of internal models or calculation of regulatory solvency capital requirements at the group level, among others. These systems usually include explicit risk assessment measures, with a predefined time horizon and confidence level, such as value at risk (VaR or tail VaR), which would apply both in the calculation of capital under standard formulas, when the applicable factors or scenarios are calibrated under this explicit measure, or by applying internal models.

Under the analysis criterion of the regulatory measures formally implemented as a basis to estimate the I-RBR, the countries in Latin America can be classified into three groups (see Chart 2). The first group consists of two insurance markets (Dominican Republic and Venezuela) with regulatory systems that essentially maintain the features of the Solvency I-type systems, and implemented measures that suggest a transition toward risk-based systems have not yet been identified. Since the previous assessment (with information as of 2017), Argentina, which was part of this first group, has moved into the second group due to its progress in the regulation of the second pillar. This group is now made up of ten markets (Argentina, Costa Rica, Uruguay, Ecuador, Guatemala, Paraguay, El Salvador, Panama, Nicaragua, Bolivia, and Honduras). While these markets maintain Solvency I-type regulations, they have gradually progressed, with varying depth levels, in the implementation of transitional measures towards risk-based regulation. Finally, a third group of countries consists of six markets (Mexico, Brazil, Puerto Rico, Colombia, Chile, and Peru) that, in addition to varying degrees of progress in transitional measures towards risk-based regulation, have already implemented (also with varying degrees of depth) measures that are fully consistent with risk-based regulation (Solvency II-type). In particular, in 2015, Mexico and Brazil obtained provisional equivalence to the Solvency II system from the European Commission for a ten-year period; this equivalence must be renewed, if applicable, in 2025.

Chart 2. Analyzed models: Risk-based Regulation Proximity Index (I-RBR)



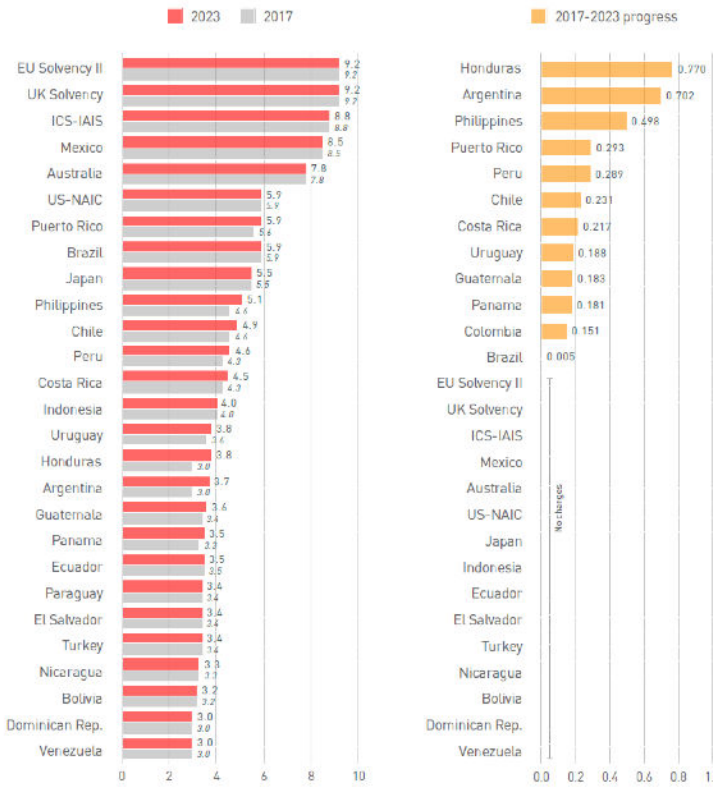
Source: MAPFRE Economics

Our detailed analysis of regulatory models in each region highlights the complexity and diversity of the approaches taken. These regions show progress towards more risk-based regulation, but there are significant differences in how they have implemented and adopted the proposed regulations, guided by the three dimensions discussed above (standardization and supervision, modernization, and global financial stability). The regulatory changes have resulted in tangible benefits for insured parties, guaranteeing better protection and more stability in the insurance industry.

Chart 3 provides a comparative view of insurance solvency regulation systems in several regions of the world, highlighting the progress towards risk-based regulation despite the persistence of elements of more traditional regulatory models. It shows the updated value and composition as of January 2024 (based on data from 2023) of the Risk-Based Regulation Proximity Index (I-RBR), estimated from the analysis performed on each regulatory model considered in this study and its development since the last assessment in our 2018 report.

Finally, while it is true that risk-based regulatory models can improve insurance market performance, they are more complex models that require, as preconditions, the existence and development of new institutional and market infrastructure. Therefore, they involve lengthy design, implementation, and internalization processes. The existence of institutional and market preconditions that allow the risk management function to be carried out effectively and efficiently determines the speed and likelihood of further progress of this type of

Chart 3. Analyzed models: change in Risk-Based Regulation Proximity Index (I-RBR), 2017-2023



regulatory model in the different markets. Moving forward to implement this type of regulatory system before these preconditions are met may limit the benefits of its implementation and, under certain conditions, even create undesired effects that hinder the operation of the insurance market. In conclusion, continuous adaptation and stronger regulatory frameworks are necessary to respond to the changing dynamics of the global financial system. The need to learn from past crises and anticipate future vulnerabilities is also crucial to ensure a stabler, more resilient financial system, capable of withstanding the challenges of a globalized and highly interconnected economic landscape.

The full analysis can be found in the report entitled *Insurance Solvency Regulation Systems Outlook*, prepared by MAPFRE Economics.

Monetary policy

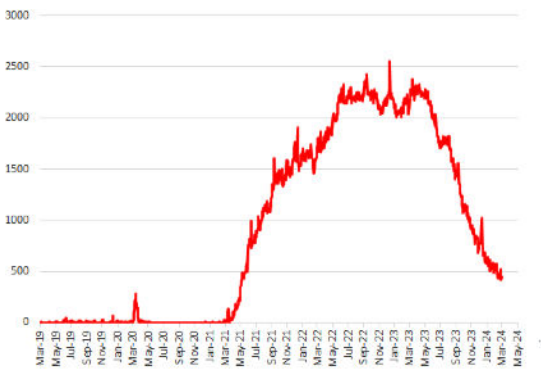
Autor: MAPFRE Economics

Federal Reserve

At its third meeting this year, the Federal Reserve once again decided to hold its benchmark interest rate at a range of 5.25%-5.50%, in line with market expectations that changes were unlikely. Regarding the outlook, while the dot plot has yet to be updated with the last 75 basis points (bps), Jerome Powell offered a slightly less optimistic narrative on the future path of interest rates, in light of some less encouraging progress on the macroeconomic side. This reversal is mainly explained by inflation, as progress toward the FOMC's 2% inflation objective has been limited in recent months, suggesting that it could take longer than expected to generate the "greater confidence" necessary to begin cutting interest rates.

As for the balance sheet, in addition to the changes introduced earlier this year involving the Bank Term Funding Program (BTFP), burdened by rate arbitrage problems since its launch, the FOMC announced plans to slow the pace of decline of its security holdings from June onward by reducing the monthly redemption cap on Treasury securities from 60 billion to 25 billion dollars. It will maintain the monthly redemption cap on mortgage-backed securities (MBS) at 35 billion dollars and reinvest any principal payments in excess of this cap into Treasury securities.

Chart 1. One-day inverse repos (ON-PRR) (Billions USD)

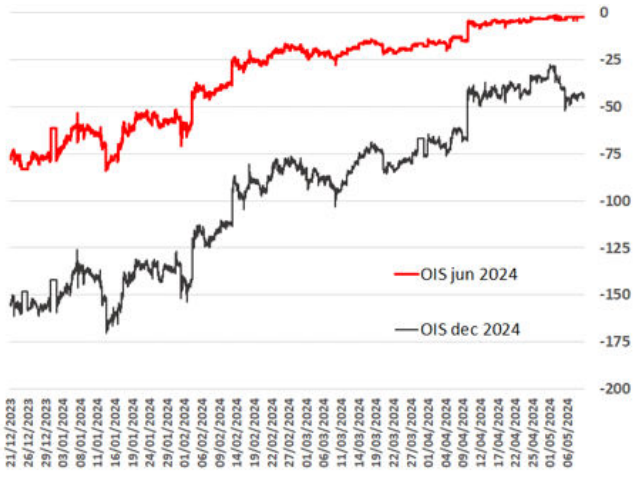


Source: MAPFRE Economics (based on Fed data)

These announcements were also anticipated, as they were on the discussion table at the previous meeting and backed by the ongoing reductions in the use of the ON RRP facility (see Chart 1)[1].

This new pause, in line with the trend at recent meetings, came with a reminder that interest rate cuts would be a gradual path and always dependent on a series of macroeconomic data that, despite not justifying cuts right now, continues to suggest a more accommodative policy for the second half of the year. The confirmation of this roadmap led rate operators to discount from swaps the first 25 basis points of cuts between September and November, and an additional 25 bps in December; a volatile number, as illustrated by both the changes in expectations since the start of the year and the publication of the most recent data (see Chart 2). However, to a certain extent, it stays in the lane suggested by the Fed, allowing it to manage expectations as necessary.

Chart 2. Expected interest rates in June and December



Source: MAPFRE Economics (based on Bloomberg data)

The macroeconomic panorama remains favorable, as indicated in our most recent forecast update (2024 Economic and Industry Outlook: Second-Quarter Forecast Update). The data published to date shows that the deceleration continues, and once again, despite happening slower than expected (with a downside surprise in Q1), it still suggests a healthy

1 See: https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements

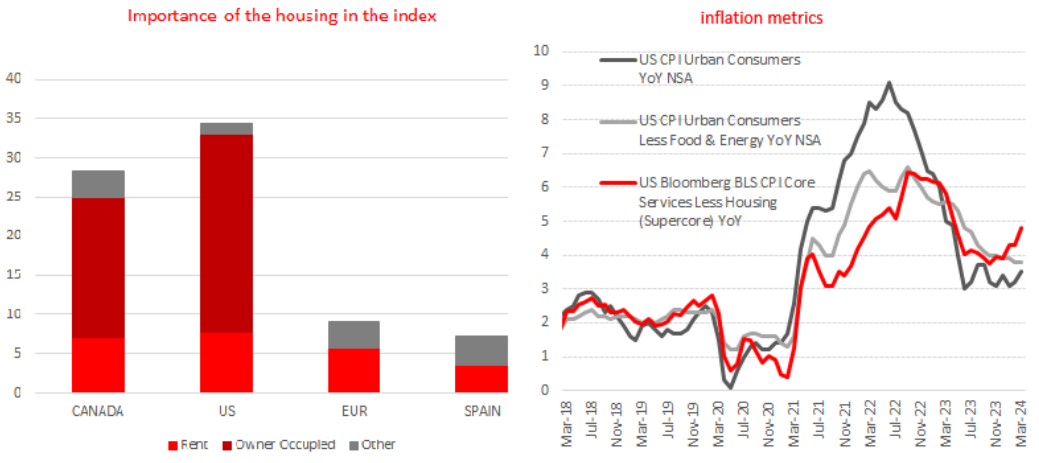
expansion in terms of both consumer spending and positive investment performance.

The latest PMI and ISM surveys also indicate that the manufacturing sector is starting to bottom out, setting the stage for recovery, while services remain in expansion territory, figures both compatible with an annualized 2% increase in GDP (in line with the expected potential).

As for the labor market, the overall data has yet to offer a clear picture. The unemployment rate increased to 3.9%, while labor participation remained unchanged at 62.7%, with the addition of just 175,000 jobs in April. Meanwhile, the Employment Cost Index (ECI) increased to over 4% in both the private and public sectors, an acceleration suggesting that a wage-price spiral cannot yet be ruled out.

As for inflation readings, the latest data confirms that the process is stagnating. The general CPI increased 0.44% month-over-month, with a new hike in energy prices, basic goods (which are once again producing positive contributions), services (which remain high), and more rigid housing inflation, a variable with significant bearing on the index compared to its European counterpart. This performance has also been observed in high readings of the core index (3.8% YOY) and in the so-called Supercore index (goods and services minus housing), with 4.5% YOY in Europe (see Charts 3 and 4).

Charts 3 and 4. Importance of housing in the CPI and inflation metrics



Source: MAPFRE Economics (with BLS, Eurostat, and BoC data)

The fiscal path doesn't appear to be a component that will change as campaign season ramps up either. Nonetheless, in the medium term this is a factor that will begin to include a possible return of Donald Trump to the White House, with a universal tariff policy, or the continuation of Joe Biden's presidency, with a proposal of an additional 7.3 trillion dollar expenditure, both structurally inflationary elements, in 2025. This would put the Federal

Reserve back at square one, where it found itself two years ago. This means it would continue calibrating to determine a neutral interest rate that could be higher than in the past (at least compared to the last cycle).

All in all, the timeline seems less favorable than anticipated and may veer toward a scenario with fewer cuts (none in the riskiest scenario), given the great inclination toward dynamic activity and employment, inflation stalled above the target, a historically high public deficit, and the same forces of change in global geopolitics that are threatening global financial stability.

European Central Bank

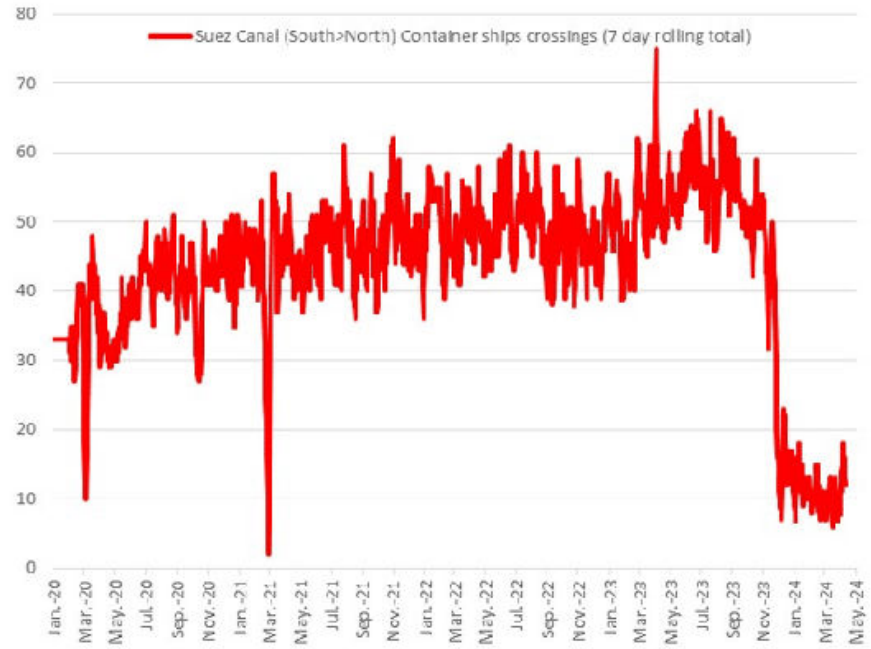
At its March meeting, the European Central Bank (ECB) left the three official interest rates unchanged for the fourth consecutive time, leaving the marginal lending facility rate at 4.75%, the rate on main refinancing operations at 4.50% and the deposit facility rate at 4.00%. On the balance sheet side, it maintained the roadmap through which it aims to reduce its size at a measured and predictable pace (no longer reinvesting maturities under the Asset Purchase Program, APP), as well as continuing with the planned change to the Pandemic Emergency Purchase Program (PEPP), which will give way to an interruption of reinvestments at the end of 2024 as well as a reduction process (in the second half of 2024) worth 7.5 billion euros per month on average. Finally, no additional guidance was presented for Targeted Longer-term Refinancing Operations (TLTROs).

At the macroeconomic level, this backdrop, despite offering few changes compared to December, lays the foundations for a more balanced vision in terms of both growth (which could well speed up in the second half of 2024, or even sooner, as suggested by the Q1 data) and price stability, with a predicted return to the central bank's target within the forecast horizon (2025).

As a result of this, and a string of previous positive data, the rate cut discussion is no longer considered premature and is now open, offering clearer clues about June as the starting point for a relaxation of financial conditions, but suggesting caution beyond that date, in an exercise of prudence, given its growing divergences from its U.S. counterpart.

In summary, the ECB will maintain a reflective stance, as evidenced by the differing opinions of council members, as it awaits conclusive signs of change both internally and externally. The former seem encouraging, with a rebound in activity and price pressures that have not yet interrupted the path of disinflation, while the latter, rooted primarily in geopolitics, serve as a continued reminder that such factors that should not be ignored. This is particularly true in the case of Europe, given its closer proximity to the Red Sea crisis and dependency on the terms of trade (see Chart 5).

Chart 5. Container traffic through the Suez Canal



Source: MAPFRE Economics (based on Bloomberg data)

Risk Environment 2024-2026: Classification and analysis

Autor: MAPFRE Economics

Summary of the conclusions of the
MAPFRE Economics report:
Risk environment 2024-2026: classification and analysis
Madrid, Fundación MAPFRE, May 2024

Effective risk management at the global level requires not only identifying and understanding individual risks, but also the capacity to anticipate and adapt to the complex interactions between them. The interrelationships between risk types and their potential impact on various aspects of society underscores the need for a multidisciplinary and collaborative focus to address these challenges.

MAPFRE Economics periodically conducts an analysis and validity exercise of social, economic and political risks that may impact on the economic forecasts and scenarios used in its Economic and Industry Outlook reports. These scenarios consider elements of risk that could transform the central (most probable) view into an alternative, less probable and surely more socioeconomically costly view, analyzing risks from four dimensions agreed upon in the financial literature[1]:

I. Validity and proximity in time of its possible materialization
II. Probability of occurrence
III. Severity or expected cost if it materializes, and
IV. Centrality or capacity to interact with other risks.

1. See: documentos 1 a 5 en bibliografía consignada en MAPFRE Economics (2024), *Entorno de riesgos 2024-2026: tipología y análisis*, Madrid, Fundación MAPFRE.

Trends and current momentum of risks

Global **economic growth** tends to decline as a result of the structural phenomenon of the aging population, drop in participation in the labor force, and reduction in productivity levels.

Meanwhile, **inflation** is trending back, as a result of global transformations in production, demographics and strategies. The probability of a slowdown is inevitable, although an inflationary recession is not expected in the central scenario of the forecasts prepared by MAPFRE Economics. Inflation, which has shown a downward trend due to the normalization of supply chains and energy prices, has not yet reached the goals set by the main central banks. This outlook suggests a gradual adjustment of monetary policies toward a more neutral posture, in line with the need to address macroeconomic imbalances without precipitating an economic contraction. Inflation is nearing the monetary policy goals, while the output gap is slightly lower than desirable, which does not rule out the possibility of new supply shocks that could further destabilize the price stability objectives. In a context of waiting for confirming data, with the Federal Reserve and the European Central Bank postponing rate cuts until after Q2 2024, they are weighing whether the financial system is weakening, thus the debate of price stability versus financial stability is on their balance sheet of pros and cons.

In the complex risk landscape, challenges loom in **global governance** that pose significant threats at the national and global levels. International institutions are expected to face difficulties in the medium and long term managing issues such as climate change, humanitarian crises and geopolitical conflicts, generating a troubling gap in global response capacity. Disinformation and social polarization present a high probability risk over time. The ramifications of these phenomena include the erosion of trust in institutions, as well as challenges to social cohesion and governance.

The **risk of diffuse, diverse and disruptive conflicts** and violence, with a projected increase over the medium to long term, ranging from divergences between major powers to terrorist threats, suggests the possibility of more complex wars and high human and economic costs. The conflict in the Middle East, in particular, has emerged as a significant risk that could escalate, affecting global stability and altering economic forecasts.

In its Economic and Industry Outlook report, MAPFRE Economics establishes a risk framework for the short-term (two years ahead), in which it presents a detailed view of global socio-economic, health, technology, geopolitical and governance risks, which are in line with the typology of dimensions mentioned above. The main risks identified are focused primarily on the global economic slowdown, uncertainty in monetary and fiscal policy, moderate but persistent inflation, and the influence of geopolitics and international markets on the global economy. The likelihood and impact of these risks vary, but they all present significant challenges for the global economy in the coming years (See Chart 1).

Chart 1. Short-term risk balance: vulnerabilities and global risks

Source: MAPFRE Economics (2024), 2024 Economic and Industry Outlook, Madrid, Fundación MAPFRE.

Those risks with a high probability of occurrence and high severity, such as geopolitical risk, inflation and the f**inancial and global debt risk** should be noted. With respect to the latter, global debt, rising interest rates, balance sheet reduction policies, and geopolitical conflicts form a set of risks in place since 2018 and 2019. These intricately interrelated elements have shaped the trajectory of global financial markets and pose challenges to global economic stability. There is consensus that while interest rates will be lower than 2022, the slope will be greater than the historical average with greater volatility.

There are four points by which global financial and debt risk is considered likely to operate, all leading to a situation of financial stress for liquidity and/or solvency reasons:

- **public and private indebtedness** (sovereign and credit risk). Total global debt currently (Q2 2024) amounts to approximately 335% of global GDP, while emerging markets have lower sovereign debt, although exposed to exchange rate risk.
- **liquidity in the system.** Ample liquidity in the system and expectations of dropping interest rates are facilitating a visible relaxation of global financial conditions, as well as credit conditions, and this is maintaining the liquidity and solvency situation for the time being.

- the **solvency of specific segments in families and companies**. We are witnessing moderately strong increases in delinquency and non-performing loans which, while not worrying in the solvency situation of the financial system, could be stressed in the event that high financing costs persist.
- "exuberance" in **the valuation of specific assets**. This overvaluation is found both in the financial sector in equities (tech) and in high-risk financial assets (due to excess liquidity). In a liquidity stress event, we could see a sharp adjustment in asset valuations, which could lead to solvency crises in certain economic segments.

Risks related to rising interest rates as well as construction and real estate development highlight the sensitivity of real estate markets to economic and financial factors, contributing to global risk dynamics. This type of high severity risk, although less severe than that experienced in the 2008 crisis thanks to the restructuring of the financial system and household balance sheets, is considered to be at a medium level below what the benchmark index would indicate (economic risk with social and political implications).

The reports prepared by MAPFRE Economics, both macroeconomic and industry-related, share a view of the current momentum and its main trends that is compatible with the consensus view, further finding important links between the trends described above and the emerging and dynamic risks detailed by the World Economic Forum (WEF) in its Global Risk Report. In summary, Table 1 shows the evolution matrix of risks in the 2018-2024 period perceived by the WEF.

Table 1. Matrix of evolving risks identified by the World Economic Forum in its 2018-2024 risk reports

Year	Economic	Environmental	Geopolitical	Social	Technological
2018	Asset bubbles, deflation, failure of financial institutions, fiscal crises, unemployment, illegal trade, energy price shocks.	Extreme weather events, failure to mitigate climate change, loss of biodiversity, natural disasters, environmental damage.	Failure of governance, interstate conflicts, terrorism, weapons of mass destruction.	Deficient urban planning, food crises, mass migration, social instability, infectious diseases.	Adverse technological progress, impairment of the data infrastructure, cyber attacks, fraud and data theft.
2019	Similar to 2018, plus uncontrolled inflation.	Similar to 2018.	Similar to 2018, plus collapse or crisis of a State.	Similar to 2018, plus water crisis.	Similar to 2018.
2020	Similar to 2019.	Similar to 2019.	Similar to 2019.	Similar to 2019.	Similar to 2019.
2021	Economic impact of COVID-19, digital division, market changes.	Failure of climate action, environmental damage caused by humans.	Geopolitical tensions, political fragmentation.	Social inequality, social interruption, instability.	Technological advances, cybernetic dependency, cybersecurity.
2022	Inequality in economic recovery, low global investment, deglobalization.	Socio-environmental risks, climate change.	Economic wars, multi-domain wars.	Cost of living crisis, political instability.	Digital dependence, cybernetic threats.
2023	Cost of living crisis, inflation, trade wars, unsustainable debt.	Lack of progress on climate goals, loss of biodiversity.	Geopolitical fragmentation, economic war, asymmetrical conflicts.	Social vulnerabilities, erosion of human development.	Expanding inequality through technology, cybersecurity.
2024	Persistent concern about the rising cost of living and inflation, impact of geopolitical conflicts and pandemics, rising global debt and risk of economic recession.	Urgency of climate change, extreme weather events, loss of biodiversity, need for effective climate actions and adaptation.	Geopolitical tensions, focus on regional conflicts, fragmentation of international cooperation, impact of multipolarity on global instability.	Societal polarization, vulnerabilities in human development, migration management, public health crisis.	Risks of artificial intelligence and cybersecurity, proliferation of disinformation, cyber attacks.

Source: MAPFRE Economics (with information from the WEF Risk Reports, 2018-2023)

Impact of geopolitical risk on the insurance industry

Geopolitical risks have a significant impact on the insurance industry. Lower growth in economic activity, as a result of the fragmentation of the global economy due to geopolitical tensions, would negatively affect insurance premium growth, which is tightly linked to GDP growth levels, and could impact the ability of insurance companies to diversify risks and increase the cost of claims. Thus, as economies diverge, driven by national security-driven changes, insurance companies face greater political uncertainty due to more disparate legal systems, potentially limiting their underwriting and investment potential, exposing them to compliance and reputational risks, and complicating or challenging their internationalization strategies. For example, **insurance companies have dropped out of markets like Ukraine and reduced coverage in regions experiencing heightened tensions, such as Israel and Taiwan.** On the contrary, insurance demand has increased in other parts of the world, indicating that geopolitical changes present both challenges and growth opportunities for insurance companies.

In summary, geopolitical tensions lead to a significant restructuring of global supply chains, exerting a major impact on the insurance industry, as replicating supply chains may come at too high a cost, thus stressing companies and governments. Meanwhile, they may complicate global collaborative efforts, which are essential and necessary to address critical threats such as climate change, energy security and health, among others, and could escalate into a "green cold war", impacting the role of insurance companies in supporting transition projects.

Finally, we observe that main risks for the global economic environment include the global economic slowdown, the uncertainty of monetary and fiscal policy, inflation and the influence of geopolitics and the international markets. Within the energy markets there are elements such as oil and gas prices, the war in Ukraine, war tensions in the Middle East, OPEC production cuts, among others, which directly affect the dynamics of the global economy and are therefore considered to be economic risks of high subjective prevalence at present.

The complete analysis of the socioeconomic and geopolitical risks the world is facing and how it is responding to them can be found in the Risk Environment 2024-2026: classification and analysis report, prepared by MAPFRE Economics.

How to facilitate longer working lives and flexible transitions to retirement

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The aging population is a global-scale phenomenon, although there are differences among regions and countries. According to the last report with global data about the world population[1], the percentage of the population over 65 years of age reached 9.7% in 2022. However, in Spain that percentage was 20.15% in 2023[2], and it is expected to climb to 30% of the population by 2050. And another more significant piece of data is related to the life expectancy of people 65 years old: in 2022, women's life expectancy exceeded 23 years, and that of men, close to 20 years. Projections indicate that in 2050, the life expectancy of those 65 years of age for women will exceed 25 years, and for men, 22 years. Although a direct translation can't be made, the life expectancy of people 65 years old represents approximately the number of years, on average, they will receive a retirement pension, a time interval continuously growing.

These data should be enough to make us aware of the urgent need to introduce policies and mechanisms that facilitate and encourage prolonging one's working life. However, the possible legislative and regulatory changes will not be enough to produce this effect if not accompanied by a cultural change that changes perceptions, values, and attitudes about retirement and the continuity of the working life.

1 United Nations (2022). *World Population Prospects 2022. Summary of Results.* Department of Economic and Social Affairs, Population Division. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/wpp2022_summary_of_results.pdf

2 Instituto Nacional de Estadística, INE (2024). Indicadores de estructura de la población, 2024. https://www.ine.es/jaxiT3/Datos.htm?t=1488

In Spain, the generally highly positive view of retirement, both by citizens and by social agents and public opinion, discourages people from remaining in the labor market after a certain age, which can be between 55 and 65 years of age. According to OECD data, in 2022, the effective retirement age will be 61.8 years for women and 62 for men, one of the lowest of the OECD and much lower than the joint average of the member countries (63.1 and 64.4, respectively)[3].

The preceding data coincide with employment rates of people 55 years or older in Spain. According to INE statistics[4], in 2023 this rate was only 26.8%, with 31.7% for men and 22.63% for women. These percentages are even more significant when compared with the averages of the countries of the European Union, where during the 2014-2023 period, employment for age groups between 55 and 64 years reached 70% for men and 58% for women[5].

In summary, the combination of the growing percentage of the population over 65 years old, an elevated life expectancy at 65 years, an effective retirement age several years below the "official" retirement age, and employment rates of people 55 years and older close to 40% less than those of the EU countries, places Spanish society in a position in which the sustainability of pension and social protection systems seems very compromised. Therefore, as most of the countries around us and those with higher levels of aging have already done, it seems time to take effective measures to facilitate and actively promote the extension of working life to ages above the current ones, and to avoid or slow down the risk of collapse or deterioration of the current system.

Factors involved in the decision to prolong working life

Due to the current and future effects of the general aging process analyzed, the trend over the last decade in countries where this phenomenon is more pronounced has been to delay official retirement ages, penalize early retirement and encourage active policies to extend working life beyond the usual retirement ages[6]. Research results[7] consistently show that the main factors associated with intentions and decisions to continue working after age 55 depend basically on four types of factors:

3 OCDE. Pensions at a glance 2023. Effective age of labor market exit. https://www.oecd-ilibrary.org/sites/e4d8d9b3-en/index.html?itemId=/content/component/e4d8d9b3-en

4 National Statistics Institute, INE (2024). Employment rates for different age groups .https://www.ine.es/jaxiT3/Datos.htm?t=4942

5 EUROSTAT (2024). Employment, annual statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment_-_annual_statistics#Employment_of_men_and_women_by_age_groups

6 Alcover, C. M. (2017). Bridge employment: Transitions from career employment to retirement and beyond. En E. Parry & J. McCarthy (Eds.), *The Palgrave Handbook of Age Diversity and Work* (pp. 225-262). Palgrave Macmillan.

7 See, for example, Alcover, C. M., Bargsted, M., & Yeves, J. (2023). Individual agency and structure perceptions in intentions to withdrawal from work early/late in the mid-and late-career. *Personnel Review*. 52(1), 304-320. https://doi.org/10.1108/PR-03-2021-0154. Solem, P. E., Syse, A., Furunes, T., Mykletun, R. J., De Lange, A., Schaufeli, W., & Ilmarinen, J. (2016). To leave or not to leave: Retirement intentions and retirement behaviour. *Ageing & Society, 36*(2), 259-281. https://doi.org/10.1017/S0144686X14001135 Principi, A., Bauknecht, J., Di Rosa, M., & Socci, M. (2020). Employees' Longer Working Lives in Europe: Drivers and Barriers in Companies. *International Journal of Environmental Research and Public Health, 17*(5), 1658. https://doi.org/10.3390/ijerph17051658

a. personal situation, mainly objective and subjective general health status, perceived work capacity and levels of self-efficacy;

b. working conditions and the organizational context, specifically personnel management policies and practices, job security, leadership styles and the organizational climate;

c. the family and close social context, especially the spouse's situation and the number of dependents, the personal and family economic situation, and retirement decisions of coworkers or close friends; and

d. macro factors, such as economic incentives to retire, health and social protection systems, and the situation of the labor market.

On the other hand, it is important to distinguish between the capacity and the motivation to continue working or not after certain ages. For example, the results of one study[8] show that the most frequent variables associated with "I can" continue working were the physical and mental labor environment, the work rhythm and perceived skills/abilities, while those associated with "I want" to continue working were the centrality of work in one's life, work time and the management's attitude toward older workers.

The conceptual view that best allows us to capture the intentions and decisions in the middle and end phases of a career to prolong the working life is represented by the life course perspective. This approach highlights how contextual and social conditions shape life transitions, and emphasizes the interdependencies between major life spheres, such as work, family, or health[9]. These external factors configure the *structure*, which influences and shapes human agency, or the individual's capacity to make decisions[10]. Consequently, people have different perceptions of voluntary (i.e., the capacity for greater agency versus structural factors) or involuntary (i.e., lower capacity for agency and greater influence of structure), in relation to the intentions and subsequent decisions they may make in the course of life[11].

Research results on the influence of these two types of factors on decisions to prolong working life are mixed, mainly due to the effect of cultural factors and occupational characteristics, which largely influence individual decisions. For example, a context like Spain, where a strong pro-retirement culture still prevails, or being employed in occupations where corporate restructuring

8 Nilsson, K., Hydbom, A. R., & Rylander, L. (2011). Factors influencing the decision to extend working life or retire. Scandinavian Journal of Work, Environment & Health, 37(6), 473-480. https://doi.org/10.5271/sjweh.3181

9 Henkens, K. (2015). Labor force transitions in late life: between agency and structure. In Finkelstein, L., Truxillo, D., Fraccaroli, F. and Kanfer, R. (Eds), Facing the Challenges of a Multi-age Workforce: A Use-inspired Approach (pp. 321-330). Routledge.

10 Henkens, K. & van Solinge, A. (2021). The changing world of work and retirement. In K. F. Ferraro & D. Carr (Eds.), Handbook of Aging and the Social Sciences (pp. 269-285). Academic Press. https://doi.org/10.1016/C2017-0-03920-4

11 Alcover et al. (2023), op. cit.

and mergers have been very intense (i.e., banking, telecommunications, and certain industrial sectors), have significantly influenced the early retirement decisions of a very large number of people in recent decades. In summary[12], agency decisions, or willingness, to continue working and extend working life beyond retirement age are associated with four factors, which in turn interact with different variables of the context, or structure:

1. skills appropriate to the labor market, perceived employability, professional growth, and both objective and perceived work ability;
2. intrinsic motivation, organizational commitment. and task commitment, which in turn make up the affective bond with the organization and the work;
3. job satisfaction and generativity, i.e., opportunities to share knowledge with younger co-workers; and
4. sociodemographic factors, such as living without a partner, good health conditions and higher education.

Logically, characteristics and inverse factors exert a facilitating effect on decisions to retire early or not to extend working life.

Policies and practices to prolong working life

As a general guideline, for organizations, companies and institutions in all areas to articulate their own policies and practices, there needs to be a legislative and regulatory context that actively facilitates and encourages longer working lives. This framework does not refer exclusively or primarily to measures to delay retirement age in a linear fashion, but rather to specific incentives ¾for employers and employees¾ to extend working life, both before and after retirement. An example of the latter is perfectly illustrated by the proposal of full retirement and work compatibility, as postulated and defended from different perspectives[13], and as already permitted and promoted in many countries in our environment[14].

12 Carlstedt, A. B., Brushammar, G., Bjursell, C., Nystedt, P., & Nilsson, G. (2018). A scoping review of the incentives for a prolonged work life after pensionable age and the importance of "bridge employment". *Work 60*(2), 175–189. https://doi.org/10.3233/WOR-182728 Fouquereau, E., Bosselut, G., Chevalier, S., Coillot, H., Demulier, V., Becker, C., & Gillet, N. (2018). Better Understanding the Workers' Retirement Decision Attitudes: Development and Validation of a New Measure. *Frontiers in Psychology, 9*, 2429. https://doi.org/10.3389/fpsyg.2018.02429

13 Por ejemplo, Fundación AGE, Activos de Gran Experiencia (2023). Manifiesto. Por una Jubilación Compatible y la plena compatibilidad entre la prestación por jubilación y los ingresos laborales http://fundacionage.org/prueba_2/wp-content/uploads/2023/03/Manifiesto-FAGE_Compatibilidad.pdf

14 Arellano, A., Doménech, R. y García, J. R. (2022*). Prolongar la vida laboral: ¿Por qué? ¿Dónde estamos? ¿Cómo hacerlo?* BBVA Research. https://www.bbvaresearch.com/wp-content/uploads/2022/06/prolongacion_vida_laboral_2022.pdf Fernández Orrico, F. J. (2017). La compatibilidad de la pensión de jubilación con el trabajo en la Unión Europea: una manifestación de las políticas de envejecimiento activo (con especial atención a España y Portugal). *Revista de Trabajo y Seguridad Social, CEF, 417,* 57-88. Sánchez Martín, A. R. y Jiménez Martín, S. (2021). *La compatibilidad del trabajo y el cobro de pensión en España: análisis institucional en el contexto europeo.* FEDEA. https://documentos.fedea.net/pubs/eee/eee2021-11.pdf?_gl=1*1cf6m7e*_ga*NjIxMTIxMzMzLjE3MTUxNTcwNjc.*_ga_K71EGLC8JC*MTcxNTE1NzA2Ny4xLjAuMTcxNTE1NzA3My4wLjAuMA

In the specific field of organizations, in general, the most effective interventions to prolong working life[15] are multicomponent interventions that address different objectives, generally related to improving physical and cognitive health, accommodating and adapting tasks and jobs, increasing physical exercise and self-care activities, and other specific actions according to workers' specific needs[16]. Based on the results of recent reviews[17], several policies and practices have been put forward to encourage the retention of older workers in jobs and prolonged working lives, aimed at policy makers and social agents as well as organizational managers:

1. Promoting incentives to increase work ability in older workers.
2. Eliminate age-based job discrimination in conjunction with promoting gender equality.
3. Investing in training, lifelong learning, health and well-being, while striving to maintain and increase productivity.
4. Promoting creativity, knowledge development and intrinsic work motivation.
5. Improving working conditions to increase workers' occupational safety and health.
6. Promoting intergenerational relations, social inclusion, and social support for older workers in organizational contexts.
7. Supporting policies and practices aimed at late retirement, in line with the increase in life expectancy.
8. Reducing early retirement if workers' health and work ability (perceived and objective) are satisfactory and there are no objective reasons for exiting the labor market.

15 Alcover, C. M. & Londoño, A. (2021). Panorama das intervenções sobre maturidade, trabalho e aposentadoria no contexto internacional. In M. H. Antunes, S. T. M. Boehs, & A. B. Costa (eds.), *Trabalho, Maturidade e Aposentadoria: Estudos e Intervenções*. Vetor Editora.

16 Steenstra, I., Cullen, K., Irvin, E., Van Eerd, D. & IWH Older Worker Research team (2017). A systematic review of interventions to promote work participation in older workers. *Journal of Safety Research, 60*, 93-102. https://doi.org/10.1016/j.jsr.2016.12.004

17 Barakovic Husic, J., Melero, F. J., Barakovic, S., Lameski, P., Zdravevski, E., Maresova, P., Krejcar, O., Chorbev, I., Garcia, N. M., & Trajkovik, V. (2020). Aging at Work: A Review of Recent Trends and Future Directions. *International Journal of Environmental Research and Public Health, 17*(20), 7659. https://doi.org/10.3390/ijerph17207659 Nilsson, K., & Nilsson, E. (2021). Organisational measures and strategies for a healthy and sustainable extended working life and employability-a deductive content analysis with data including employees, first line managers, trade union representatives and HR-practitioners. *International Journal of Environmental Research and Public Health, 18*(11), 5626. https://doi.org/10.3390/ijerph18115626

In addition to these policies, practices, and interventions, one of the most widely used strategies in the last two decades aimed at prolonging working life and facilitating transitions from employment to retirement is[18]bridge employment, one of the most important options for continuing to work after retirement[19], closely related to the aforementioned compatibility between retirement pension and work. These arrangements relate to employment transitions that occur both within one's own profession and in other occupations, and may take the form of salaried employment (full or part-time), permanent or temporary jobs, and self-employment. In addition, transitions can occur within the same organization or by changing to other organization(s)[20].

Specifically, organizational interventions to promote internal bridge employment (i.e., of its own older employees) refer to all those interventions that facilitate changes of position, activities, workday, work periods, etc., that voluntarily and by negotiation allow for the extension of working life beyond the usual retirement ages, with benefits for both the organization and the older workers.

Meanwhile, organizational interventions to promote external bridge employment (i.e., of older employees from the labor market) refer to active recruitment and selection policies and practices for hiring older people that, through these negotiated and individualized arrangements, which may take the form of idiosyncratic-deals based on employees' skills and needs, use bridge employment arrangements in pursuit of mutually beneficial outcomes. These bridge employment arrangements include hiring people who had taken early retirement and who are able and willing to return to work before final retirement[21].

In short, these policies, practices, and interventions can enhance not only the extension of working life, but also facilitate flexible transitions from working life to retirement, so this important life transition takes place in a more individual, gradual and even more *natural* way, instead of the abrupt, often involuntary and also traumatic change involved in the prevailing traditional model, clearly anachronistic in the current sociodemographic context.

18 Alcover, C. M., Topa, G., Parry, E., Fraccaroli, F., & Depolo, M. (Eds.). (2014b). *Bridge Employment: A Research Handbook.* Routledge.
19 Sullivan, S. E., & Al Ariss, A. (2019). Employment after retirement: A review and framework for future research. *Journal of Management, 45*(1), 262–284. *https://doi.org/10.1177/0149206318810411*
20 Alcover, C. M. (2017). Bridge employment: Transitions from career employment to retirement and beyond. In E. Parry & J. McCarthy (Eds.), *The Palgrave Handbook of Age Diversity and Work* (pp. 225-262). Palgrave Macmillan. Beehr, T. A., & Bennett, M. M. (2015). Working After Retirement: Features of Bridge Employment and Research Directions. *Work, Aging and Retirement, 1*(1), 112–128. https://doi.org/10.1093/workar/wau007
21 Alcover, C. M. (2017), op. cit.

Conclusion

This article has attempted to contextualize the extension of working life by considering the sociodemographic characteristics of today's society, marked by population aging and, in particular, by the significant increase in life expectancy at 65 years of age. In this context, active policies and practices aimed at facilitating and encouraging longer working lives should be a priority for governments, administrations, organizations and stakeholders, if the goals are to guarantee current pension and social protection systems, maintain social cohesion, promote active aging and enable citizens to make voluntary decisions and exercise their right to retire when, how and where they wish to do so. The benefits, direct and indirect, of changing the still dominant pro-retirement culture and promoting longer working lives will have an impact on society as a whole, so maintaining the status quo and delaying action to progressively bring about this change may compromise the well-being of both current and future generations.

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Alcover, C. M. (2024). What builds bridge employment? Agency and structure building blocks in mid- and late-career decisions. In E. Parry, J. McCarthy, & N. Heraty (eds.), *The Palgrave Handbook of Age Diversity and Work*, 2nd edition. London: Palgrave Macmillan.

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