Legacy liabilities are a drag on their profitability ... such that half of European and US insurers are valued below their book values and below precrisis levels.

Guarantees and duration mismatches remain high for a large part of the sector.

Some insurers may soon face negative investment spreads.

Sources: Annual reports; Autorité de Contrôle Prudentiel et de Résolution; Bloomberg Finance L.P.; Bundesbank; De Nederlandsche Bank; European Insurance and Occupational Pensions Authority; Moody’s Investors Service; National Association of Insurance Commissioners; Nationale Bank van België; NLI Research Institute; Office of Financial Research; Organisation for Economic Co-operation and Development; SNL Financial; and IMF staff estimates.

Note: In panel 1, the implied cost of capital was about 10 percent before and after the global financial crisis. In panel 3, the size of the bubble relates to the share of liabilities with guaranteed returns to total life insurance liabilities. Green = countries with insurance sectors that have low guaranteed returns and low or negative duration mismatch. Yellow = countries with insurance sectors that have either high guaranteed returns or a high duration mismatch. Red = countries with insurance sectors that have both high guaranteed returns and high duration mismatch. In both cases in panel 4, guaranteed returns continue to decline. In the case of a 100 basis point increase in bond yields, Belgian, Japanese, and US investment yields are not expected to fall below guaranteed returns. Data labels in the figure use International Organization for Standardization (ISO) country codes. ROE = return on equity.