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INVESTMENT PERFORMANCE TOPS INSURANCE RISKS Banana Skins poll pinpoints key crisis concerns for Bermuda insurance sector

The ability to protect investment performance is the key challenge facing the global insurance industry as it manages its way through the financial downturn.

The CSFI's latest Insurance Banana Skins survey shows that in what is proving to be the worst business crisis in decades, insurance leaders are focused on the economic outlook, the availability of capital and volatility in the equity markets.

With over 400 responses from 39 countries, the new Insurance Banana Skins survey, conducted by the CSFI in association with PricewaterhouseCoopers, shows how respondents rank the risks facing the industry.

The results are in sharp contrast to the previous survey in 2007 when the top priority was operational risks such as too much regulation. That year, market risks barely featured in the top ten – signifying a major shift in risk perceptions due to the crisis.

High on the list for Bermuda companies is the macro-economic outlook and its impact on the insurance industry (second place), as lower business volumes put strains on profitability and capital in many parts of the world.

Bermuda companies responding to the survey expressed more concern over reinsurance security than their onshore peers, against a background of seriously impaired balance sheets worldwide. They also retained their worries about “managing the pricing cycle”, placing it seventh.

Insurance Banana Skins 2009

(2007 ranking in brackets)

- 1 Investment performance (11)
- 2 Equity markets (13)
- 3 Capital availability (26)
- 4 Macro-economic trends (-)
- 5 Too much regulation (1)
- 6 Risk management techniques (14)
- 7 Reinsurance security (27)
- 8 Complex instruments (19)
- 9 Actuarial assumptions (8)
- 10 Long tail liabilities (7)
- 11 Interest rates (22)
- 12 Managing the pricing cycle (5)
- 13 Management quality (3)
- 14 Managing costs (-)
- 15 Insurance industry reputation (-)
- 16 Distribution channels (6)
- 17 Corporate governance (23)
- 18 Political risks (16)
- 19 Pricing new risks (17)
- 20 Reinsurance availability (28)
- 21 Managing technology (12)
- 22 Natural catastrophes (2)
- 23 Fraud (30)
- 24 Back office (15)
- 25 Retail sales practices (20)
- 26 Terrorism (18)
- 27 Business continuation (29)
- 28 Climate change (4)
- 29 Product development (-)
- 30 Demographic trends (24)
- 31 Managing mergers (31)
- 32 New types of competitors (10)
- 33 Contract wording (25)
- 34 Pollution (21)
- 35 Too little regulation (32)

PwC Bermuda insurance partner, Colm Homan, says that although concern about too much regulation slipped down the rankings (to fifth place globally, eighth in Bermuda) it remains a big issue in all the major markets. “Insurers fear a regulatory crackdown in the wake of the credit crunch,” he says. “Insurance executives are also worried that the industry will be made to share the cost for what is essentially a banking crisis.”

Doubts over the quality of the insurance industry’s risk management (six in the global ranking), and its exposure to complex risk instruments (eight) increased from the previous survey. There is a strong feeling among the 400 respondents that the industry is not naturally equipped to enter these markets and will have to “go back to basics”.

But Caroline Foulger, PwC Bermuda insurance partner, says the Bermuda response reflects greater confidence among the island’s insurers in their risk management processes. “In general, the Bermuda (re)insurance industry companies have mostly performed well in the risk management arena in this time of broad economic challenge, compared to the banks and some of the global insurance companies,” she says.

Concern about the quality of management in the insurance industry has been overtaken by more urgent risks, dropping from third place to thirteenth (10 in Bermuda).

Globally, there was a sharp fall in environmental-type risks. Natural catastrophes and climate change, which were in the top ten in 2007, are now ranked in the 20s. This is partly because there have been fewer major events, but also because the industry sees risks in this area becoming more manageable.

Ian Dilks, global insurance leader, PricewaterhouseCoopers, said: “The industry is now operating in the worst economic downturn seen in decades which has led not only to a major reappraisal of key risks but also a concern that the industry is not as well placed to deal with them as it once thought and therefore a change in risk appetite. Responding to these challenges and embedding good risk management practice across organisations is critical if the industry is to emerge from this cycle in a better position.”

David Lascelles, the survey’s editor, said: “The underlying message of this survey is all about crisis management. Can the industry sustain its profitability and capital to get through the crisis? The challenges are unprecedented.”

ENDS

Bermuda

1. Investment performance
2. Macro-economic trends
3. Capital availability
4. Equity markets
5. Reinsurance security
6. Interest rates
7. Managing the pricing cycle
8. Too much regulation
9. Terrorism
10. Management quality

The top results of Bermudian respondents were broadly in line with the world total, showing a strong focus on the risks arising from the financial crisis. The main differences were a higher level of concern with macro-economic trends, with the security of reinsurance, and with the management of the pricing cycle.

Bermuda respondents also put interest rates, terrorism and management quality higher up the list than the rest of the world. On the other hand, concern about excessive regulation was lower.

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Notes to Editors

1. For further information please contact David Lascelles, CSFI, on +44 (0)20 7493 0173 or +44 (0)7710 088658, or Louise Hayter, PwC, on 441 299 7184.
2. The Insurance Banana Skins survey was conducted in November and December 2008 and is based on 403 responses from 39 countries. The breakdown by type of respondent was:

	%
Life insurance	28
Non-life	30
Composite	5
Reinsurance	4
Brokers	8
Observers	25

Three quarters of the respondents this year were insurance executives, many in senior positions or at board level.

3. The survey is the latest in the CSFI's long-running Banana Skins series on financial risk, initiated in 1994. The series includes banking, insurance and microfinance.
4. The CSFI (Centre for the Study of Financial Innovation) is a non-profit think-tank, founded in 1993, which looks at challenges to and opportunities for the financial sector. It has an affiliate organisation in New York, the New York CSFI.

5. PricewaterhouseCoopers provides industry-focused assurance, tax, and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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