Global insurance CEOs confident about their prospects

Redefining success, the PricewaterhouseCoopers 12th Annual Global CEO Survey, explores how CEOs are reconsidering the fundamentals of business in response to extreme operating conditions and assuming responsibility for issues that were once considered outside the scope of industry. We interviewed 1,124 CEOs around the world between September 10 and December 2, 2008. Here, we look specifically at what the CEOs in the insurance industry think, and how they are dealing with a combination of challenges.

The business environment

Despite the high-profile problems faced by AIG last year, insurers have not encountered anything like the scale of the problems experienced by the banking sector. Indeed, the survey reveals that insurance CEOs are more confident about the prospects for long-term revenue growth than their counterparts in other industries; 46% say that they are ‘very confident’, compared with just 34% of the total survey population. Insurance CEOs are also more optimistic about the outlook for their industry as a whole; 26% profess to be ‘very confident’, compared with 20% of the overall sample.

Perception of key risks

The assessment of risk is critical for all industries, but nowhere more than in the insurance sector, where firms need to evaluate risk for just about every sphere of economic activity. A number of paradigms shifted and insurance CEOs say that they are more concerned than CEOs in other industries about various risks, including:

- Disruption of the capital markets;
- climate change;
- the protectionist tendencies of national governments;
- over-regulation;
- inflation;
- pandemics;
- the availability of key skills;
- technology interruptions; and
- the inadequacy of the basic infrastructure.

While the effect of climate change is currently a secondary issue to the credit crisis, it has nevertheless remained high on the corporate agenda, and 13% of insurance CEOs say that they are ‘extremely concerned’ about climate change, compared with 7% of the overall sample. They are concerned that lack of planning, particularly regarding flood defenses, could lead to further major losses.

Balancing the short and long term

Insurers learned valuable lessons from the downturn of 2001-03, as a result of which they have improved their risk management and cut their exposure to equities. They believe themselves to be on a better financial footing this time around. This may help to explain why many insurers, unlike banks, feel no need to make deep cuts to their personnel. Only 15% of insurance CEOs are planning to reduce the number of people they employ in the next 12 months (versus 26% of the total survey sample) and 39% of respondents say that they will actually increase their headcounts.

Insurance CEOs are also more likely than CEOs in other industries to be looking at joint ventures and strategic alliances as a way to grow their businesses and build market share. About four-fifths of them (82%) say that they will finance such growth through internally-generated cash flows, compared with the overall average of 76%. Some companies are clearly confident that their cash flows will remain robust this year—or, at least, that they will not be as badly affected as those of companies in other sectors.

Cultivating key skills

Insurance CEOs are focusing on the retention of talent to a greater extent than their peers in other sectors; 44% believe a management structure that rewards long-term success is ‘critical’, compared with 31% of the total survey population. Similarly, 51% say that information about the views and needs of employees is ‘critical’ (versus 38%).

The credit crisis is affecting insurers, but for the moment at least, most CEOs in the sector seem to think that they have sustainable business models. They are confident enough about their prospects to be focusing on retaining key staff and thinking about extending their operations via joint ventures this year. For the industry’s strongest firms—those with the greatest capital—the years ahead could provide opportunities to consolidate their franchises.

Excerpt taken from the PricewaterhouseCoopers 12th Annual Global CEO Survey – *Redefining Success*. Full findings of the survey are available at www.pwc.com/ceosurvey

If you would like to discuss any of the issues raised, please speak to your PricewaterhouseCoopers representative or contact:

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