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**'TOO MUCH REGULATION' TOPS INSURANCE RISKS
Banana Skins poll reveals global concern**

Regulatory overkill is identified as the greatest risk facing the insurance industry by the CSFI's latest Banana Skins survey, in association with PricewaterhouseCoopers LLP.

More than 100 respondents to the survey say that excessive regulation is endangering the industry by loading companies with costs, distracting management and creating barriers to competition and innovation. This finding is linked to concern about growing political interference, particularly in markets where governments regulate insurance products and prices.

Over-regulation is widespread. With responses from 21 countries, the survey shows it to be a major issue in North America, Europe, South Africa and the Asia Pacific. Sectorally, concern is strongest among life insurance companies, followed by the property & casualty sector. The survey quotes the chief executive of a major UK life insurer as saying: "Regulation is becoming ever more intrusive, time-consuming and box-ticking. This is despite the rhetoric about principles-based regulation." More than 80 per cent of the insurance industry respondents were senior executives or directors.

The survey is the first made of the insurance sector in the CSFI's long-running Banana Skins risk series. The result exactly matches the finding of the CSFI's last survey of the banking industry (in 2006), where over-regulation emerged as the top risk for the second year running.

Insurance Banana Skins 2007

- 1 Too much regulation
- 2 Natural catastrophes
- 3 Management quality
- 4 Climate change
- 5 Managing the cycle
- 6 Distribution channels
- 7 Long tail liabilities
- 8 Actuarial assumptions
- 9 Longevity assumptions
- 10 New types of competitors
- 11 Investment performance
- 12 Managing technology
- 13 Equity markets
- 14 Risk management techniques
- 15 Back office
- 16 Political shocks and pressures
- 17 Pricing new risks
- 18 Terrorism
- 19 Complex instruments
- 20 Retail sales practices
- 21 Pollution
- 22 Interest rates
- 23 Corporate governance
- 24 Demographic trends
- 25 Contract wording
- 26 Capital availability
- 27 Security of reinsurance
- 28 Availability of reinsurance
- 29 Business continuation
- 30 Fraud
- 31 Merger mania
- 32 Too little regulation
- 33 Asbestos

David Lascelles, the survey's editor, said: "Over-regulation is clearly a major issue for a large part of the finance sector, not just banking. It also appears to be a global phenomenon."

Jeremy Jensen, partner, PricewaterhouseCoopers LLP, said: "The focus on regulation will only increase over the next few years, as insurers face a number of new demands, not least the coming overhaul of financial reporting and Solvency II. A key challenge is to develop effective risk management systems which can provide both compliance and also improved business execution."

Other high level risks identified by the survey include natural catastrophes and climate change, where insurance losses for the property and casualty sector are rising fast, particularly in heavily populated areas. The main risks facing the life insurance industry include growing human longevity and the soundness of assumptions going into the pricing of life policies.

The survey was conducted at a time when the traditional cycle in the property and casualty market is turning down. Respondents say that insurers are striving to maintain revenues by taking on extra risk, cutting prices and loosening the wording of insurance contracts. This raises concerns about the profitability of the industry, and the risk that insurers will be exposed to "long tails" – insurance risks that could take years to materialise.

The quality of management in the insurance industry is also a major source of concern. Responses to the survey show widespread doubts about the industry's ability to meet growing challenges from regulation, new competitors, technological change and product innovation. The industry is also seen to be failing to attract new blood because of an image problem. Like regulation, the management issue is geographically widespread.

One of the operational challenges facing the industry is the modernisation of back office systems and technology. Much of the industry is technologically obsolete, even paper-based, which ties its hands when competing with new entrants into the business: better equipped banks and Internet-based suppliers.

The survey also shows which risks are seen to be receding. Notable is asbestos, once the scourge of the industry, now at the bottom of the list with insurers feeling it is manageable. The problems of under-regulation are also low down the list, though it is felt that several emerging markets need better controls.

Although the survey exposes some potentially worrying risks, it also brings better news about the industry's preparedness. Only three per cent of respondents think insurers are "poorly" prepared to meet the risks that lie ahead. Just over 20 per cent answer "well" and the rest give a mixed response.

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Notes to Editors

1. For further information please contact

CSFI

David Lascelles +44 (0)7710 088658

Andrew Hilton +44 (0) 20 7491 8666

PricewaterhouseCoopers LLP

Rebecca Mill +44 (0) 20 7213 5829

Email: Rebecca.mill@uk.pwc.com

2. The Insurance Banana Skins survey was conducted in February and March 2007 and is based on 139 responses from 21 countries.

The breakdown by type of respondent is:

	%
Brokers	6
Life insurance	34
Property & casualty	35
Reinsurance	14
Observers	11

3. The survey is the latest in the CSFI's long-running Banana Skins series on financial risk, initiated in 1994. This is the first survey specifically addressed at the insurance sector. Previous surveys have focused mainly on banking. For copies of Banana Skins please contact the CSFI: 5, Derby Street, London W1J 7AB. Tel +44 (0)20 7493 0173
4. The 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 NY CSFI.
5. The member firms of the PricewaterhouseCoopers network provide industry focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 140,000 people in 149 countries across our network work collaboratively using connected thinking to develop fresh perspectives and practical advice.

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