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

The ability to turn in a strong investment performance is seen as the key challenge facing the insurance industry as it manages its way through the financial downturn.

The CSFI's latest Insurance Banana Skins survey shows that without the stable investment returns they have depended upon, insurance companies are facing an uncertain future in what is proving to be the worst business crisis in decades. This is in sharp contrast to the previous survey in 2007 when the top focus was on 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.

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. High on the list is the macro-economic outlook and its impact on the insurance industry. Lower business volumes are expected to put strains on profitability and capital in many parts of the world.

Also sharply up on the previous survey is the quality of the insurance industry's risk management (No 6), and its exposure to complex risk instruments such as credit default swaps (No 8). There is a strong feeling among respondents that the industry is not naturally equipped to enter these markets and will have to "go back to basics".

The survey also shows that the industry is seen to be less well prepared to handle risk than it was in 2007. Only four per cent of respondents thought that insurance companies were well prepared compared with 21 per cent last time.

Although concern about too much regulation has slipped down the rankings, it remains a big issue in all the major markets, mainly because of concern about a regulatory crackdown in the wake of the credit crunch. Insurance executives are also worried that the industry will be made to share the cost for what is essentially a banking crisis.

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)

Concern about the quality of management in the insurance industry, which featured strongly in 2007, has also slipped down the list, from No 3 to No 13. But, again, this has been overtaken by more urgent risks, and has not disappeared.

Very striking is the sharp fall in environmental-type risks. For example, 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.

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."

Eva Hupková, Senior manager at Audit, PricewaterhouseCoopers Slovakia, said:

''Whilst the top risks identified in the survey are not initially surprising it is salutary to see how markedly the perception of key risks have changed since 2007 and how consistent the views of key risks are around the world.

"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.''

For the life industry, the downturn is likely to hit the savings business, particularly if there is an extended period of low interest rates. On the non-life side, the main concerns are with the outlook for premiums, and a possible surge in claims, including those motivated by fraud. Concerns in the reinsurance industry are mainly with the security of capacity in a difficult market.

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Notes to Editors

1. For further information please contact
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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.

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