

Insurance Banana Skins 2015

The CSFI survey of the
risks facing insurers



The Centre for the Study of Financial Innovation is a non-profit think-tank, established in 1993 to look at future developments in the international financial field – particularly from the point of view of practitioners. Its goals include identifying new areas of business, flagging areas of danger and provoking a debate about key financial issues. The Centre has no ideological brief, beyond a belief in open markets.

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Preface

This is the fifth ‘banana skins’ survey that we have carried out for the insurance industry – and it is one of the most interesting.

The headline finding – that (too much) regulation is perceived as the top risk for the third consecutive year – is important enough. There is a widespread fear within the industry and among observers that the volume of regulation is swamping the industry; it costs too much, it takes up too much management time and it kills competition. But that is far from the only risk – and it may not actually be the biggest. There is another risk ‘cluster’ that encompasses macroeconomic risks (rated No. 2), interest rate risk (No. 3) and investment performance (No. 5), which suggests both that the current low interest rate environment is hurting the industry and that (difficult as things are now) they could get worse when interest rates rise.

On top of that, there is cyber risk (No. 4) – a new risk for us, but one which leads the pack as far as UK and US respondents are concerned. Here, the chief concern is the vast quantity of data held in the ‘cloud’. Major breaches are inevitable, and will do both financial and reputational damage.

On the positive side, there is a perception that the quality of management (and of risk management in particular) has improved since 2013, and that ‘questionable’ business practices are less of a problem. The insurance industry itself clearly feels that it is significantly better prepared to handle the problems it faces than it was at the time of the last survey in 2013. Against that, however, the overall level of concern about risks within the industry is at its highest level since the first survey in 2007.

In other words, there are several themes that one can draw from the data – some more encouraging than others. But no one can gainsay the coverage of the survey. It gathered a record 806 responses from practitioners (life and non-life, brokers and re-insurance) and observers in 54 countries, all of whom had to complete a detailed questionnaire that included both a checklist of perceived risks and space for open-ended responses. The mix gives the *Banana Skins* series its unique flavour.

As usual, the CSFI’s thanks go to the two authors – my colleague, David Lascelles (now the Centre’s senior fellow), and Keyur Patel (who recently published a CSFI survey on the City’s professional bodies). I would also very much like to thank the team at PwC with whom we worked. This is a CSFI report (and we take responsibility for it), but it is only possible because of the generous support that we get from PwC. Long may that continue.

Andrew Hilton
Director
CSFI

This report was written by David Lascelles and Keyur Patel

Sponsor's foreword

Welcome to Insurance Banana Skins 2015, a unique survey of the risks facing the industry, which has been produced by the CSFI in association with PwC.

We're delighted to be continuing our support for this initiative, which began with the publication of the first edition in 2007. The Banana Skins reports provide valuable insights into the risk concerns at the top of the boardroom agenda and how these perceptions change over time. Many of you will be comparing the industry-wide findings against your own assessment of the current and emerging risk environment.

Cyber risk is the number one banana skin for participants from non-life businesses, as well as being high up the list for reinsurers and life insurers. As more and more business moves to online and mobile channels, insurers' vulnerabilities to hacking, fraud and data compromise continue to mount. The risk is heightened by the volume of medical, financial and other sensitive policyholder information held by insurers, which if compromised would lead to a loss of trust that would be extremely difficult to restore. It's vital that boards take the lead in evaluating and tackling cyber risk within their data and systems infrastructure, rather than seeing this as solely a matter for IT. As the threats increase, we're likely to see more specialists in surveillance, encryption and biometric verification coming into the industry. At the same time, it's important to look at how cyber security can be strengthened without undermining the digitally-enabled ease and accessibility customers now expect.

The leading banana skins for life insurers are interest rates and the macro-economy. These are also top ten risks for reinsurers and non-life insurers. Low interest rates are making it difficult to generate competitive returns for policyholders. Potentially higher capital charges for guaranteed products could drive up costs still further and erode returns in many markets. Tight cost control is clearly crucial in being able to sustain margins in low growth markets. We're also seeing moves towards more dynamic investment strategies as insurers look to boost asset returns, while remaining within reasonable risk tolerances. At the heart of this approach is a better understanding of the interdependencies between capital demands and asset yields, enabling insurers to capitalise on market opportunities while curbing capital costs.

Regulation is once again a prominent Banana Skin across all segments of the industry. The latest wave of regulatory change is not only creating huge operational disruption, but also calling into question longstanding strategic certainties. Costs, prices and returns could soon become unsustainable if the changes aren't managed effectively. This in turn requires a mechanism capable of looking beyond basic operational compliance at how new regulation will affect the strategy and structure of the organisation and using this assessment to develop a clear and coherent company-wide response.

Regulation is just one of the disruptive shifts facing insurers as they grapple with a perfect storm that includes the impact of digital technology, changing customer expectations and competition from new entrants. The transformational challenges this presents are reflected in the fact that change management is a top five Banana Skin for life, non-life and broking businesses, though notably not reinsurers. More than just new systems and processes, successful execution demands a clear sense of how culture, organisation and talent strategies will need to change and how this can be achieved. Many of these disruptive shifts echo the social, technological, environmental, economic and political (STEEP) mega-trends PwC has identified in its Insurance 2020 reports (www.pwc.com/insurance/future-of-insurance). Insurers are using Insurance 2020 to help them judge the implications of these trends for their organisations and determine the strategies needed to respond.

We would like to thank all the participants in the survey for sharing their valuable insights and thank the CSFI for the richness of insight and perceptive comment in this report. The long-term prospects for insurers are positive as people around the world live longer and have more wealth to protect. The ability to identify and manage emerging as well as familiar risks will be one of the key differentiators for success.

We hope that you find Insurance Banana Skins 2015 useful and thought-provoking. If you have any feedback or would like to discuss any of the issues raised in more detail, please do not hesitate to contact us.

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About this survey

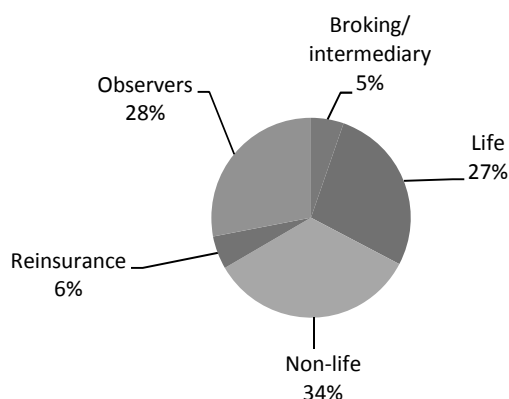
Insurance Banana Skins 2015 surveys the risks facing the insurance industry in mid-2015, and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

The report, which updates previous surveys in 2007, 2009, 2011 and 2013, was conducted in March and April 2015, and is based on 806 responses from 54 countries.

The questionnaire (reproduced in the Appendix) was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the insurance sector over the next 2-3 years. In the second, they were asked to rate a list of potential “Banana Skins” or risks. In the third, they were asked to rate the preparedness of insurance institutions to handle the risks they saw. This report ranks and analyses each Banana Skin individually.

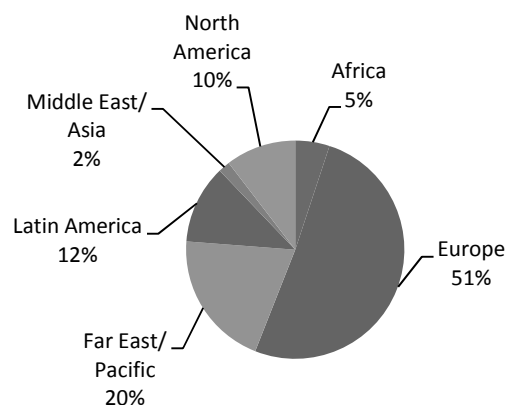
Replies were confidential, but respondents could choose to be identified.

The breakdown of responses by type of respondent was



Nearly two thirds of the respondents were from the primary insurance industry. The remainder were from the reinsurance and broking sectors, and non-practitioners such as regulators, consultants, analysts and other professional service providers.

The breakdown of responses by region was



The geographic spread overweighs Europe and underweighs other regions. This is because of a significant response from the international insurance business in London.

The breakdown of responses by country was

Argentina	11	Greece	12	Poland	2
Australia	28	Hong Kong	9	Portugal	25
Austria	2	Hungary	5	Russia	1
Belgium	25	India	12	Singapore	22
Bermuda	18	Ireland	16	Slovakia	6
Brazil	43	Italy	12	South Africa	35
Canada	37	Japan	8	South Korea	31
Cayman Is.	1	Latvia	6	Spain	29
China	5	Luxembourg	19	Switzerland	20
Colombia	1	Malaysia	8	Taiwan	4
Croatia	4	Malta	1	Thailand	2
Cyprus	10	Mexico	12	Turkey	46
Czech Rep.	10	Netherlands	42	UAE	1
Denmark	18	New Zealand	43	UK	74
Ecuador	1	Nigeria	2	Uruguay	7
Egypt	1	Norway	1	USA	29
Finland	19	Panama	3	Vietnam	3
France	4	Peru	16	Zimbabwe	4

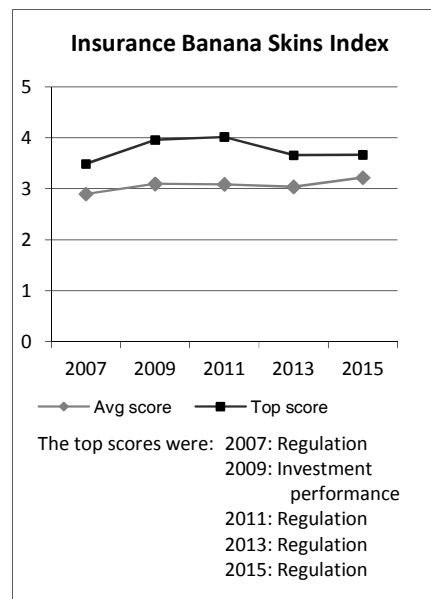
Summary

This survey identifies the risks, or "Banana Skins", facing the global insurance industry in the first half of 2015, as seen by a sample of 806 practitioners and close observers from 54 countries. It comes at a time when the world economy is showing moderate, if uneven, signs of growth, but the industry itself faces a difficult investment climate, a heavy regulatory agenda, and the pressures of deep structural and technological change.

The tone of the response is more negative this year

Significantly, the overall tone of the responses this year is more negative than the previous survey in 2013, as measured by our **Insurance Banana Skins Index** (the "anxiety index"), despite the resumption of global growth. The average score given by respondents to our list of 25 risks rose to its highest level since we began the series in 2007, reversing the downward trend we saw in 2013 in the aftermath of the global financial crisis.

This pessimism is due primarily to pressures from the economic and public environments (i.e. macro-economy, regulation, political), signalling that the sector considers its greatest risks to lie outside its direct control.



Chief among the external risks is **regulation**, which tops the survey for the third year running. Concern is driven by the quantity of regulatory reform at all levels, in particular the EU's Solvency 2 Directive. The fear is that these initiatives are loading the industry with costs, and distracting management from the task of running profitable businesses, as well as heightening compliance risk.

External pressures are mounting

Worries about regulatory pressure are sharpened by the difficult economic environment in which the industry currently finds itself, in particular the persistence of **low interest rates** (No. 3) which is depressing **investment performance** (No. 5) and affecting bottom line results. **Savings products with guaranteed returns** (No. 7) remain a concern for the life side of the business. Respondents generally also see low yields driving a strong increase in competition as insurers seek to boost their "top line" revenues, and outsiders such as hedge funds chase business with new capital. **The availability of capital** at No. 22 is clearly not seen to be a problem: rather the opposite, it is in surplus.

Respondents were gloomy about the outlook for the **macro-economy** (No. 2), largely because of uncertainty about the future of quantitative easing, as well as the cooling of emerging market growth and the continuing crisis in the eurozone. **Market conditions** (No.13) in the non-life insurance market have a cycle of their own, and are currently depressed because of surplus capacity. Respondents gave a mixed view of the outlook, some seeing rates hardening, others commenting that the low level of major claims and plentiful capital would keep conditions soft.

Regulation is the top risk for the third year running

Structural and technological change in the industry ranks high on the risk list as pressures for consolidation grow, and digital techniques become more widespread. Concern about **the industry's ability to manage change** has risen sharply (from No.15 in the 2013 survey to No. 6).

The top concern on this front is **cyber risk** (No. 4) which we rank for the first time this year. As an industry that handles large amounts of other people's money and personal data, insurance is vulnerable to attack. Cyber is also an underwriting risk which has yet to be fully scoped.

The impact of change in the areas of **distribution and client interface** has also risen as a concern (up from No. 11 to No. 8). Much of the industry is struggling to keep pace with new technologies, and incumbents feel threatened by new entrants unburdened by legacy systems. **Technology** is a common theme in virtually all the major changes facing the industry.

Among the large underwriting risks, **natural catastrophes** (No. 9) are considered to be the most formidable, though they have slipped from the high position they occupied in the wake of the bad earthquakes that coincided with the last survey, but may now be underpriced as risks. **Climate change** (No. 19), **terrorism** (No. 23) and **pollution/contamination** (No. 24) are seen to be low order.

An area of declining risk is the **governance and management of insurance companies**. These were seen as high-level risks during the financial crisis, but have fallen sharply in this survey. Respondents reported big improvements, partly as a result of initiatives from the industry itself, but also under strong regulatory pressure. Concerns remain, however, particularly over the quality of **human talent** in the industry (up from No. 19 to No. 15), and its ability to attract good people.

Another area of declining risk is **reputation** (down from No. 14 to No. 18) as the industry (and the regulators) get to grips with bad **business practices** such as mis-selling (down from No. 4 to No. 11). However, respondents said that much remains to be done to improve the industry's image, for example in claims handling.

Insurance Banana Skins 2015

(2013 ranking in brackets)

- 1 Regulation (1)
- 2 Macro-economy (3)
- 3 Interest rates (-)
- 4 Cyber risk (-)
- 5 Investment performance (2)
- 6 Change management (15)
- 7 Guaranteed products (6)
- 8 Distribution channels (11)
- 9 Natural catastrophes (5)
- 10 Quality of risk management (7)
- 11 Business practices (4)
- 12 Quality of management (8)
- 13 Market conditions (-)
- 14 Long tail liabilities (9)
- 15 Human talent (19)
- 16 Political interference (10)
- 17 Product development (20)
- 18 Reputation (14)
- 19 Climate change (18)
- 20 Social change (-)
- 21 Corporate governance (17)
- 22 Capital availability (16)
- 23 Terrorism (27)
- 24 Pollution/contamination (26)
- 25 Complex instruments (23)

Cyber risk is a dramatic new entrant

Big movers

This year's survey has produced dramatic changes in the ranking of some Banana Skins, reflecting shifting perceptions of risk in a difficult market. Here are some of the big movers.

UP

Interest rates (new entrant). Persistent low yields are hurting performance.

Cyber risk (new entrant). Vulnerability of the industry to attack and underwriting risk.

Change management. Can the industry handle its huge change agenda?

Human talent. The industry is insufficiently attractive to young people.

DOWN

Capital availability. Capacity is in surplus.

Corporate governance, quality of management. Insurance companies are now better run.

Reputation, business practices. Industry conduct and image are improving.

Type of respondent

The survey shows divergences between the concerns of different types of respondent. The ranking of **regulation**, for example, was the No. 3 concern for both the life and non-life sides. However it was No. 1 for observers (consultants, analysts, academics etc.), suggesting that this risk is not just an industry bugbear. The life industry was particularly concerned about low interest rates, investment performance and the economic outlook, while the non-life side and the broking community focused on underwriting risk: cyber, catastrophe, and climate change. The reinsurance industry's main concern was excess market capacity.

Geography

A breakdown of responses by region also showed different priorities. The strongest common concern between Europe and North America was interest rate risk and the future of QE. The two regions also focused on the macro-economic outlook and on regulatory risk. Cyber risk was a widespread geographic concern, appearing in the Top Ten of all major regions except Latin America. Otherwise, risk priorities were very localised.

Preparedness

Respondents were asked how well prepared they thought the insurance industry was to handle the risks they identified. On a scale of 1 (poorly) to 5 (well) they gave an average response of 3.20, a sharp rise on the previous survey's 2.95, suggesting that risk management is seen to be improving, though there are still concerns as to whether this trend will stand the test of a difficult business environment.

History. The results of past Insurance Banana Skins surveys provide a useful guide to evolving risk perceptions in the industry. A summary of past results can be found on p. 33.

Who said what

A breakdown of the results by respondent type and region shows a strong common concern with the negative impact of new regulation on the insurance business, against a background of difficult and fast-changing industry conditions. However there are also striking sectoral and geographical differences.

Common concerns about regulation, economic trends and industry change

Life insurance

- 1 Interest rates
- 2 Macro-economy
- 3 Regulation
- 4 Guaranteed products
- 5 Investment performance
- 6 Cyber risk
- 7 Distribution channels
- 8 Change management
- 9 Business practices
- 10 Political interference

The life sector's main concerns are linked to the economic environment, particularly the persistence of low interest rates and their impact on savings products (such as guaranteed annuities) and investment returns. Main concerns about the industry are around the growth of cyber risk and changes affecting the structure of the industry, such as methods of distribution, competition and pricing. Concern about political interference centres on issues such as reform of pensions and health care.

Non-life

- 1 Cyber risk
- 2 Natural catastrophes
- 3 Regulation
- 4 Change management
- 5 Macro-economy
- 6 Interest rates
- 7 Distribution channels
- 8 Quality of management
- 9 Climate change
- 10 Investment performance

The property and casualty side of the business was, as might be expected, primarily concerned with underwriting risk, especially the growth of cyber risk and the continuation of high levels of catastrophe risk. Climate change also featured in the top ten. As with other sectors, the weight of new regulation was a strong concern, as was structural and technological change in the business, particularly distribution. The sector was less concerned than the life side with investment and yield issues.

Reinsurance

- 1 Market conditions
- 2 Regulation
- 3 Cyber risk
- 4 Interest rates
- 5 Natural catastrophes
- 6 Distribution channels
- 7 Guaranteed products
- 8 Investment performance
- 9 Quality of risk management
- 10 Macro-economy

The reinsurance sector's main concern centres on the soft conditions created by excess capacity and "new" types of capital, e.g. hedge funds, and what many see as onerous regulation of the market. The lack of a robust and well-defined market for cyber risk is another top concern. Interest rates rank high because low yields affect investment returns; so do natural catastrophes because ultimately the reinsurers bear the brunt. The quality of risk management in insurance companies is a further worry.

Regulation is the top risk seen by industry outsiders

Brokers/intermediaries

- 1 Change management
- 2 Quality of management
- 3 Distribution channels
- 4 Quality of risk management
- 5 Cyber risk
- 6 Regulation
- 7 Climate change
- 8 Macro-economy
- 9 Natural catastrophes
- 10 Investment performance

Changes to the structure of the industry are at the head of brokers' concerns, particularly issues linked to the client interface: distribution and major insurance risks such as cyber, climate change and natural catastrophes. The quality of management in insurance companies is another high concern. Brokers are less affected than primary insurers by macro-economic issues such as interest rates, though they share the industry's broader concern with the quantity of new regulation, particularly in the area of conduct of business.

Observers

- 1 Regulation
- 2 Interest rates
- 3 Macro-economy
- 4 Guaranteed products
- 5 Investment performance
- 6 Cyber risk
- 7 Change management
- 8 Distribution channels
- 9 Business practices
- 10 Natural catastrophes

It is significant that observers (i.e. non-practitioners) place regulation at the top of their concerns because this suggests that the perception of regulatory excess is not merely held by the industry. Observers were also concerned about the economic environment for insurance, particularly low interest rates and the effect this has on investment performance. They focused on the need for the industry to adapt to change and to strengthen its business practices.

North America and Bermuda

- 1 Cyber risk
- 2 Regulation
- 3 Interest rates
- 4 Guaranteed products
- 5 Macro-economy
- 6 Market conditions
- 7 Investment performance
- 8 Change management
- 9 Distribution channels
- 10 Natural catastrophes

Cyber attacks and data breaches were seen as especially urgent in North America and Bermuda, topping the rankings by some margin. Other industry risks also ranked much higher than the global average, notably guaranteed products and market conditions. Otherwise, the main concerns were to do with regulation and the macro-economic environment, with a particular focus on the impact of low interest rates on profitability. On the other hand, governance and underwriting risks were largely seen as lower order.

Different geographic risk priorities

Europe

- 1 Interest rates
- 2 Regulation
- 3 Guaranteed products
- 4 Macro-economy
- 5 Cyber risk
- 6 Investment performance
- 7 Change management
- 8 Distribution channels
- 9 Natural catastrophes
- 10 Business practices

More than half of the responses this year came from Europe. The persistently low interest rate environment was seen as a more severe threat than in any other region, leading to particular concerns about guaranteed products and investment performance. Elsewhere, the major risks in Europe were largely in line with the global response: overbearing regulatory requirements, especially the EU's Solvency 2 Directive, and industry risks dominated by insurers' difficulties in adapting to change, notably in technology.

Far East/Pacific*

- 1 Change management
- 2 Cyber risk
- 3 Distribution channels
- 4 Human talent
- 5 Regulation
- 6 Interest rates
- 7 Natural catastrophes
- 8 Investment performance
- 9 Macro-economy
- 10 Quality of risk management

The top risks in the Far East/Pacific region were about keeping up with technological change in the industry, from the growing sophistication of cyber-crime to emerging distribution channels that are creating competition from new entrants. This was also seen as having an impact on the industry's ability to attract and retain the right talent. On the other hand, respondents showed more optimism about the macro-economic environment than any other region we surveyed, and were slightly less wary of regulation.

* Australia, China, Hong Kong, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan, Vietnam

Latin America

- 1 Regulation
- 2 Macro-economy
- 3 Quality of risk management
- 4 Investment performance
- 5 Natural catastrophes
- 6 Interest rates
- 7 Capital availability
- 8 Business practices
- 9 Climate change
- 10 Political interference

Public environment risks were seen as more urgent in Latin America than any other region: concerns about the volume and complexity of new regulation topped the rankings by a distance, while political interference also breached the top 10. Elsewhere there was considerable variance from the global results. Institutional risks – especially the quality of risk management and business practices – were seen to be higher, and there were specific concerns about climate change and capital availability. On the other hand, there was less anxiety about the industry's ability to respond to change.

Preparedness

We asked respondents how well prepared they thought the industry was to handle the risks they identified.

On a scale of 1 (poorly) to 5 (well), they gave an average response of 3.20, well up on 2.95 last time. Respondents pointed to a higher level of risk awareness and management in the industry, particularly among well-resourced firms. Where there are concerns, these centre on the industry's ability to manage its huge change agenda, and the pace of regulatory reform.

Preparedness for risk is improving

Views on preparedness

UK, consultant: "The weakness is that for some of the market and financial risks, it is hard to see preventative or protective measures that do not involve a planned contraction of business."

Japan, life: "I believe insurers are coming around to addressing many of these risks, but they seem slower in responding than what I see from other industries."

Greece, life: "The bigger players have the structure, knowledge and resources to be adequately prepared while the lower size insurers are less likely to be able to manage the competition."

USA, consultant: "The principal weakness of the industry is its determination to see the universe of risk transfer as it once was, not as it is becoming."

Netherlands, non-life: "In general, insurers are used to managing risk based on developments in the past. They should be more forward looking. Think the unthinkable."

Luxembourg, reinsurance: "Could do better; the industry really needs to start thinking outside the box. BUT, at the same time, over-regulation stifles creativity."



1. Regulation (1)

The rising tide of financial regulation is the greatest risk facing the global insurance industry according to respondents to the latest Banana Skins survey. This is the third year running that the survey has produced this result, underlining the scale of regulatory change that is taking place in the insurance world.

The reasons are clear: while the benefits of stronger regulation are acknowledged, the sheer quantity of new regulatory initiatives is seen to be swamping the industry with costs and distractions, and creating a whole new class of risk: regulatory compliance. This was recognised by an insurance supervisor who said: "I guess from an industry perspective the main risk in respect of regulations is the speed at which regulation changes. As a supervisor my main concern is whether the industry will be able to effect the proposed regulation in time."

Regulation is seen to be distracting management from running sound businesses

A sound regulatory environment is absolutely essential. At the same time, over-regulation potentially strangles perfectly good and sound insurers from conducting good and sound business.

Managing director

Non-life company, Singapore

Regulatory risk is seen to take many forms.

Cost. The high cost of capital requirements and compliance is a major concern. This is seen to be hurting profitability and growth, and discouraging innovation in an industry whose traditional business models are coming under strain.

Jaco van der Sandt, finance director of the Mutual & Federal Insurance Company in South Africa, said: "I do not see much wrong with the principles, but worry about the unintended consequences of some of the proposals. An unanswered question in my mind is whether a healthy and effective regulator needs all the new rules to better protect the consumer and financial markets." The CEO of a life company in Luxembourg said that "European consumer protection goes too far as it assumes people cannot read and understand anymore".

A related issue is **management distraction**. One risk officer in Switzerland said: "Regulation is time-consuming and distracts talent from helping the industry be more innovative". Some respondents said that regulation was now so complex that there was a risk it could not be fully understood which meant, as one said, "it would not make the system safer".

Competition. The new regulations could have a structural impact on the insurance industry. Many respondents said they would drive out smaller insurers and reduce diversity. Another concern was "gold-plating": national regulators toughening up international standards and putting local players at a competitive disadvantage. These concerns were particularly stressed by respondents from the UK and Ireland. Malcolm Newman, managing director of SCOR based in the UK, said he was concerned that implementation of Solvency 2 "will be done in a way that damages the competitive landscape in Europe compared to other insurance markets like Zurich/Bermuda/Singapore."

Quality of regulation. The quality of insurance regulation varies widely. A frequent concern was the apparent desire of regulators to apply to insurers the same toughened standards as banks, even though insurers contributed little to the recent

Doubts about the net benefits of Solvency 2

crisis. One said regulation was “based on an assumption of guilt rather than engaging to address concerns with past industry practice”.

Global initiatives. A strong focus of concern was the **Solvency 2 Directive**, the EU’s ambitious initiative to set capital rules for the insurance industry, due for implementation next year. Although Solvency 2 only affects the EU market directly, other jurisdictions are going through similar exercises, or modelling their regulations on Solvency 2 under the aegis of the International Association of Insurance Supervisors (IAIS). Concerns exist about the capital requirements themselves and the method of implementation. The chief financial officer of a Canadian non-life company reflected a frequently voiced concern when he saw “onerous capital requirements deflating industry performance and investor appetite”.

Every time regulators implement new capital requirements, there is a strong chance they will overdo it, for two reasons: they do not have enough experience and they are always conservative.

Benildo Costa
Finance director
JM&A, Brazil

Similar concerns were expressed about **IFRS 4**, the international financial reporting standard, now undergoing expansion in Phase II. The chief financial officer of a Canadian non-life company feared that “the pending IFRS 4 requirements [...] will materially impact the industry with little increased end user benefit.” A respondent from South Korea said: “IFRS 4 Phase 2 will change fundamentally how insurers look at their business performance, but insurers do not seem to fully understand it, and they are hesitating to analyse the impact and be prepared in advance.”

Consistency of implementation was another concern. Wayne Snow, group chief risk officer at the Phoenix Group in the UK, worried that “inconsistencies in the implementation of Solvency 2 across Europe will inevitably emerge, influencing competitiveness and creating the potential for regulatory arbitrage.” Adrian Rossignolo, actuarial manager at Provincia Vida in Argentina, said that “the lack of coordination between regulators may be seen as a potential menace to the insurance sector.”

Non-insurers worry most. While many of these concerns might be discounted as a litany of complaint by an industry which feels put-upon, the scoring showed that concern was actually highest among respondents who were not direct practitioners in the industry but observers (see box).

Ranking of regulation as a risk

Observers (e.g. consultants, analysts, academics)	1
Reinsurance	2
Non-life	3
Life	3
Broking/intermediary	6

But it wasn’t all bad. A number of respondents said that while increased regulation was a burden, it did produce stronger insurance companies and encouraged the growth of a risk culture. The group executive of a Nigerian insurer said that “insurers may suffer from lowered returns, but they can only grow stronger as a result of these regulations”. In New Zealand, the chief financial officer of a large broking firm said that in his country’s case “the strengthening of solvency and prudential supervision of insurers has been a positive”.



2. Macro-economy (3)

Global economy “hobbling along”

The global economic outlook is not encouraging, according to the majority of respondents to the survey. This will affect the insurance industry through low growth, continued low interest rates and difficult market conditions.

A Canadian respondent summed it up: "The global economy is still hobbling along. The EU could encounter major disruptions with global economic effects. Further, major economies such as Russia and China are showing signs of stress."

At a local level, there were also gloomy reports from countries as diverse as Mexico, Peru, Brazil, Argentina, South Africa, Malaysia, Japan, India, Australia, Vietnam and members of the eurozone. Richard van der Hart, director of Klaverblad Verzekeringen in the Netherlands, said: "Little economic growth, so little growth prospect for insurers!" The senior manager of a South Korean life company was concerned that slack monetary policy would produce unsustainable expansion followed by a global recession.

Respondents noted some of the specific consequences of low economic growth for the industry: higher lapse rates, increased fraudulent claims, and general vulnerability of insurance to household budgets as a discretionary spend. The intensification of competition was another concern. A Dutch insurance executive said that "We are no longer in a financial crises but our world has become much more competitive."

High among respondents' concerns was quantitative easing, both as to its effect of artificially boosting asset prices, and the prospects for its unwinding. Henrik Olejasz Larsen, chief investment officer at Sampension in Denmark, said that "current low yields support the prices of all asset classes, and these will be vulnerable to e.g. inflation", while the chief risk officer at a Swiss reinsurance company said that "current central bank policy has eliminated most of the information contained in risk prices".

Some feared that a "disorderly" unwinding would be damaging to the industry, and might even precipitate a new financial crisis. On the other hand, inflationary pressures could start building up, requiring interest rates to be raised. Bryan Joseph, an insurance partner at PwC in the UK, said: "Inflation represents a significant risk, especially where there are long tailed exposures and annuity type claims."

There were a few gleams of light: respondents from the US, Canada, the UK and Spain, countries showing stronger growth, were more optimistic. Marcos Rodriguez Silva, head of operations and business services at Generali in Spain, said: "It appears that the economy is recovering from recession, which should favour the expansion of the insurance business. In this sense the impact of the macro-economy should start being positive". The director of a large US life company said this was "not an issue in the US. I don't see a deflationary or inflationary risk."



3. Interest rates (new entrant)

The persistent low interest rate environment is a major source of risk for insurance companies and could accelerate changes in the structure of the industry.

Low rates affect insurers in many ways: by driving down investment yields, by marooning products with guaranteed returns, by reducing the value of capital and by undermining traditional business models. However, pressure on profitability was the concern most frequently mentioned by respondents. Investment returns are down at a time when the market is already seeing premiums depressed by overcapacity. A UK insurance consultant said: "Many business plans have been prepared on the basis of a 2-3% real return. This is currently zero or negative."

Interest rate risk affects life companies most directly because their products are effectively a form of saving. The chief investment officer at a large Japanese life company said that "Life insurers continue to be hurt by low yields and, now, tightening spreads. Rate increases are likely to be slow."

The temptation for insurance companies is to take greater investment risk in order to raise returns. David Perez Renovales, chief financial officer at Línea Directa Aseguradora in Spain, said this could lead to excessive risk and a bubble in certain classes of assets, "all [because of] pressure to seek additional returns in order to remain competitive on price, offset higher combined ratios, and offer life products [that are] minimally attractive".

Whether traditional business models, particularly on the life side, can survive in this environment is a question a number of respondents raised. An actuary at one of the large UK life companies said that low rates "affect the viability of products, customer behaviour, capital positions, etc." while Dr Bruce Porteous, investment solutions director at Standard Life Investments, was concerned about "the reluctance of both insurers and supervisors to face up to economic realities and change."

The persistent low interest rate environment will continue to limit the industry's ability to provide competitive savings and retirement products which are important to customers.

Kenneth Rappold
CFO Asia, Aviva, Singapore

A small number of respondents said that low rates were having a healthy effect by forcing insurance companies to focus on what they are supposed to be good at: underwriting risk. Others also said that insurance companies should be able to protect themselves against low rates. The chief financial officer of a non-life group in Canada said: "Insurers can cope. They can hedge; they need good asset and liability management strategies."

No clear consensus emerged from the responses about the likely path of interest rates. Many respondents assumed the next move would be up, which would cause some short term pain as bond values adjusted, but would lead to higher returns in the long term. But a Dutch insurance company director said that "rates are very low at this moment, thanks to Mr. Draghi. We don't expect any change in the coming two to three years", and an actuary at one of the large US life companies commented: "We continue to assume interest rates are going up while we watch them go down."

Low interest rates now a major source of risk



4. Cyber risk (new entrant)

High level of anxiety about cyber risk

The most striking new theme to emerge from this survey is the high level of anxiety about cyber risk, specifically software failure and data security breaches. The risk is ranked No. 1 in North America, Africa and the UK, and No. 2 in the Far East Pacific region. By sector it is No. 1 among non-life respondents and No. 2 in re-insurance and No. 6 for life.

The chief concern is the security of the ever growing volumes of data that insurers hold in cloud-based storage systems. For many, major breaches are inevitable; the question is how much damage they will cause. The director of risk management at a non-life insurance company in Canada said: "Insurers are prime targets to be victimized given the richness of data – credit card information, medical information, and other underwriting information. It's not a matter of if but when it will happen". By demanding that insurers store more and more details about their clients, regulation could exacerbate this.

The industry is vulnerable to the growing sophistication of cyber criminals and the constantly changing nature of the threat. "Activity and technology increases all the time and security is always one step behind. Insurance companies are a likely target," said Timo Ahvonen, chief development officer of Fennia in Finland.

The task is made more difficult by the growing number of attacks, only a fraction of which need to get through to cause serious disruption. The chief financial officer of a non-life company in Australia said cyber risk was "a major threat. We repel more than 20 serious attacks every day. Half of these we suspect are state-sponsored attacks".

A global problem

Urgent concerns about cyber risk could be found in every region and sector we surveyed. A few examples:

New Zealand, reinsurance: "Cyber attacks are a threat to all businesses. Insurers may be at the top of the target list in respect of perceived or actual claim experiences".

South Africa, life: "We will be victims. The question is only how big the cost will be".

UK, consultant: "There are two types of company – those hacked and those that will be hacked. There is no amount of security in place that prevents attacks 100%."

Bermuda, non-life and life: "Every business in every industry is at risk."

Portugal, broking: "Cyber issues must be on the top of priorities for insurers."

Turkey, non-life: "Cyber attacks and information security are critical topics in the current environment. Most of the companies in the market are not compliant with international security standards."

The impact of a successful attack could be very significant, from the costs of additional security to service disruptions, the loss of intellectual property or sensitive information, and compensation claims or fines. The biggest risk of all could be a loss of trust from customers. “We all dread the call that data has been compromised and has gone outside the firewall. It’s a huge reputational risk”, said the chief financial officer of a large non-life insurance company in France. Firms may not even be in a position to alert their customers immediately after a breach.

Not everyone was so pessimistic, however. A respondent from the life insurance industry in Denmark said: “This is a risk, but the slow pace of transactions in the insurance industry makes it less vulnerable than many others”. Some saw the banking industry as a more likely target. A respondent in Switzerland said: “The risk is probably smaller than assumed, because cyber risk insurers bloat it through the media”.

While this Banana Skin was specifically about the insurance industry being the target of cyber attack, a broader point was about the underwriting risk. “Cyber insurance is such an unknown and many insurers may be opening themselves up to potentially horrific losses”, said a consultant in New Zealand. An actuary in Bermuda pointed out that existing insurance policies which do not specifically exclude (or do not mention) cyber attacks may be vulnerable to hefty claims if a major incident occurs.



5. Investment performance (2)

Poor investment performance is adding to risk

Seven years of low investment performance are putting pressure on an industry which has become dependent on investment earnings to make up for declining insurance business returns. The concern is not just about low yields and a shortage of safe, liquid assets, but the pressure on the industry to compensate for this by taking on more risk in new markets. This Banana Skin is particularly sensitive for the life industry, which ranked it No. 5, vs No. 8 for reinsurance and No. 10 for non-life.

Raj Singh, group chief risk officer, Standard Life Group in the UK, said that “low interest rates and challenges in finding quality assets with strong risk adjusted returns and higher capital calibrations will maintain pressure on investment performance in some parts of the insurance industry”, and a chief risk officer in Bermuda was concerned by “a belief that everyone can successfully follow an alternative investment strategy (and succeed)”.

Many respondents noted the tendency among insurers to take on higher risk to raise returns or to become more aggressive about market share - engaging in “bad behaviour”, as one put it. The group chief corporate actuary at a life company in Hong Kong saw a trend towards “riskier investment oriented products”.

However the level of concern has declined since the last survey, reflecting the better performance of some markets, particularly equity (though some feared there would be a correction), and stronger action by insurance companies on the asset/liability front. The chief financial officer of a large Canadian life company said: “We will, no doubt, be harmed. But our assets and liabilities are matched such that the risk is largely mitigated (other than an all-out Armageddon, such as the government of Canada defaulting on debt)”. Willem Smith, managing director, Hollard Personal Lines in South Africa, said that “good governance and prudent investment strategies are common”.



6. Change management (15)

There was a big jump in the ranking of this Banana Skin, driven by a perception that the pace and nature of change in the insurance industry are reaching new levels and challenging traditional models and practices. Geographically, this was the No. 1 risk in the Far East/Pacific, No. 7 in Europe and No. 8 in North America. By sector, it was No. 1 among brokers, No. 4 among non-life insurers and No. 8 among life insurers.

“It feels like we may be on the precipice of change, where new technologies (e.g. big data, wearables, automation) could be game changers,” said the chief financial officer of a life insurance company in Canada. “There is so much being developed that it is difficult to predict which particular change will be the one to be the most concerned about”.

Big challenges on the front of industry change

Technology was widely seen as the driving force behind new markets, changing customer demand, and facilitating competition from non-traditional entrants. In New Zealand, Gary Dransfield, chief executive officer of non-life firm Vero Insurance, said: “There is a high risk of disruptive technology and/or business models impacting insurer profitability, and ultimately relevance”, while a life respondent warned: “slow adopters of technology can lose scale very quickly”.

The need for insurers to respond to change is nothing new, but many respondents saw the current challenges demanding special urgency. “Insurers typically adapt to changes (regulatory, client needs, etc.), but with delay. In the new tech era, such delay simply can’t exist, and that’s new to insurers,” said a respondent in France. The chief financial officer of a non-life company in Belgium said: “The majority of insurers have to live with the ‘heritage’ of the past and a fragmented ICT landscape. The world is evolving faster than the response time of insurers”.

Particularly in the broking industry, a concern was that the commoditisation of commercial products is “making it a market for price buyers, not quality buyers”, and increasingly resulting in disintermediation. That is opening the door to non-traditional entrants. These might be “technology giants with the balance sheet capital and willingness to provide risk transfer solutions for clients themselves”, said a respondent in the UK, or “consumer-based industries which are driven into insurance because of the stagnation in their own lines of business”, said another from South Africa. In the words of a non-life respondent in Canada: “Customers will not care that we have legacy decisions and a very robust regulatory environment. They will expect customer service in the manner that they receive from their banks or even [the technology company] Apple”.

Some, however, expressed more optimism about these risks. A life insurance respondent in Japan said: “There is some risk, but the impact of digital is over-rated, and the death of face-to-face exaggerated”. Others focussed on the business opportunities for insurers that can adapt to new markets, while the chief risk officer of a non-life insurer said: “The overall impact on the end consumer will be positive [in terms of] lower prices, faster service, and ease of doing business”.



7. Guaranteed products (6)

The extended period of low interest rates – now much longer than expected – creates a particular problem for insurance companies who offered savings products with guaranteed returns back in the days when interest rates were high. Many of these are now loss-making because insurers cannot earn high enough investment returns to fund the liability. Concern is highest in the life sector (No. 4) where most of the exposure lies, compared to non-life (No. 13).

Many insurers have reserved for low long term interest rates so solvency may not be an issue. However, in-force business has been priced to earn a higher yield over the long-term; hence, profitability will be affected. Furthermore, companies are moving away from long-term products with embedded guarantees which may affect their markets. The overall effect is fewer benefits at a higher price which may ultimately cause a significant decrease in new sales.

Insurance supervisor

A Swiss life insurance executive said: "This will kill certain insurers - unless their shareholders inject heavy capital (which is not certain)" and the chief financial officer of a French insurer described it as "a massive risk".

Interestingly, concern about these products remains close to the level of the last survey even though capital requirements have been strengthened, and provisions made against loss in the meantime. Some commentators thought that providers were still being tempted to offer guaranteed savings products to maintain their share of the market. A UK consultant said this risk varies by region, "but how can German insurers still be writing policies with 3% guarantees?" Some made the point that the

true losses could still take years to materialise.

But others felt the risk was being exaggerated. This has become "the new normal" according to one of them, while another said that "most of the downside risk is now already adequately reserved for", and regulators were on the case.



8. Distribution channels (11)

Concern is high that insurers are not making the best use of new distribution channels to reach their clients, reflecting a wider feeling that the industry has been slow to keep pace with new technology. This was the No. 3 risk in the Far East Pacific region, and No. 4 in Africa and the UK. "The digital revolution has the potential to change the framework for doing business", said the chief actuary at a life insurance company in New Zealand.

A repeated point was that traditional intermediary channels were standing in the way of change. Luc Bergeron, chief actuary at Humania Assurance in Canada, said: "Currently the average age of the insurance broker is around 57 years old. The new generation is more oriented to the internet and direct insurance. Adjustment will be required for a large part of traditional insurance companies". More bluntly, a US respondent said: "Insurance broking is the last big bastion of financial intermediation in the commercial marketplace, an anomaly since they are nearly irrelevant to formation of capital".

'Bastions of resistance' at the client interface

Yet criticism of the insurance industry's innovation record is nothing new. What has created fresh urgency is the growing risk that technologically adept new entrants will take market share from more cumbersome incumbents. The chief executive officer at an insurance brokerage in South Africa said: "The advantage of newcomers to the industry is that they are not burdened by legacy systems – the major source of inhibition by well-established insurance players... [which makes it] relatively easier and less costly for a newcomer to deploy new and evolving technology".

Yet there is also sympathy for insurance companies grappling with obstacles to innovation. One is regulation, the No.1 risk in this survey: the cost and time requirements of compliance distracting management from exploring new distribution channels. Another is the potential for cyber disruption. "Insurance companies have to have very secure distribution, which makes the pace [of using new channels] slower", said a respondent in Finland.

The chief executive officer of a brokerage firm in the UK argued that criticisms about a lack of innovation in the industry are overblown. "Consultants will tell us this a major risk, but the reason that there are insurance companies centuries old, is that they generally can adapt to change", he said. "Insurers and brokers are consumers of technology too; they don't leave their experience at the office door, so there is no excuse for a lack of awareness of these trends".

The power of technology

A striking theme in this survey is technological change. It underpins three of this year's Top Ten Banana Skins: Cyber risk (No. 4), Change management (No. 6), and Distribution channels (No. 8). It is also one of the urgent concerns behind lower-ranked industry risks such as Human talent (No. 15) and Product development (No. 17).

New technology can be both a threat and an opportunity. The concern raised by our survey is that the traditional insurance industry will be slow to grasp the opportunity and will end up facing a threat. Developments such as digitisation, the internet and social media are already profoundly influencing price and demand for insurance products, and the means customers use to interact with their insurance providers.

As technology advances and markets become less opaque and more connected, there could even be a reduction in the size of the traditional business. But there will also be new types of risks, from data security to nanotechnology and driverless cars. If conventional insurers do not meet these changes, the risk is that new entrants or "disrupters", such as the big tech firms, will edge them out.

As one respondent put it: "Technology advances faster than the traditional insurers' innovation. Soon, innovative insurers will occupy the position where the traditional insurers have prevailed."



9. Natural catastrophes (5)

This Banana Skin achieved high positions in the last two surveys because they coincided with the major earthquakes in Japan and New Zealand. This year's Nepal earthquake occurred half way through the survey and did not, therefore, have a full impact on responses. However, risk perceptions in this area are heavily influenced by recent events, which may, or may not, be rational.

They are also influenced by a perceived link to climate change (No. 19) which, it is feared, will trigger larger and more frequent losses. There were specific warnings from respondents about more storms and flooding in Europe, and tornados in the Americas. The managing director of a reinsurance company in Australia warned that a "concentration of assets in exposed areas amplifies the problem." At the same time, "the risks are getting bigger due to global economic expansion and interdependencies", said an insurance consultant in the UK.

Alongside this growing threat is a concern that catastrophe risk is being underpriced. "We saw in events like the NZ and Japanese quakes that the modelling and exposure management of firms did not match the actual losses", said one respondent. David Chan, managing director, Thistle Asia, Jardine Lloyd Thompson Asia in Singapore, asked: "Do insurers adequately account and price for the potential for claims 'demand surge' following catastrophes?" He pointed out that may add up to 20 per cent - more in certain circumstances - to the costs of claims following a natural catastrophe.

Others cautioned against the industry panicking and unduly withdrawing from markets. A respondent from Canada said that "except when subjected to irrational regulatory pricing and market conduct", the industry has evolved the tools to manage catastrophes. "This is the business we are in", said the chief financial officer of a non-life insurance company in Australia. But he added: "It will be interesting to see how the newer challengers cope with the string of events we have recently experienced".

**Catastrophe risk
may be
underpriced given
recent events**



10. Quality of risk management (7)

The management of risk is seen to have improved in the last few years. Many respondents said that insurance companies had greatly strengthened their understanding and abilities in this area, and had instilled a stronger risk culture in their organisations.

However, various concerns persist, for example, about the depth of the commitment to managing risk. One respondent said that insurance companies "are not really changing the way we work day-to-day, just on the surface," and another wondered whether one could talk about a new risk culture or merely another function within the organisation. There was also a concern about endurance: Edward Sankey, director at Larocourt Risk in the UK, said that "after some relatively benign years (political and regulatory events apart) there is a danger of complacency in the face of some rapidly changing risks." Others said that risk systems would have to stand up to intense pressures in the market: competition, technological change, low interest rates.

The industry is facing some huge challenges, and risk teams and management are not able to dedicate sufficient time to analysing and addressing key business risks. A knock-on impact is, at a time when risk management is critical, risk functions are in danger of losing credibility with business functions and the board by focussing so much on regulatory compliance.

Risk manager

Lloyd's of London

Many respondents gave credit to better regulation for the improvement in risk management. A reinsurer in Bermuda said "New solvency regimes should make this less of a risk (otherwise what is the point of having them!)". Agustin Enrich, director general of MGS Insurance and Reinsurance in Spain, said: "I think that Solvency 2 helps us be aware of the risks in each and every one of our strategic business decisions".

Some respondents were less charitable about the regulator, saying that initiatives like Solvency 2 clogged the system with bureaucracy and required insurers to hold levels of capital which threatened their

profitability, neither of which was good for risk management. A Belgian company director said that "risk management has got a maximum of attention over the last years, but some aspects of regulation may have taken too much priority."



11. Business practices (4)

Questionable business practices have receded as a concern, most likely because the incidence of mis-selling has declined with tougher regulation and higher industry awareness. The chief risk officer at a Swiss reinsurer said that "enforcement of actual or perceived mis-selling practice has become more aggressive." But the tone of the responses here could be summed up in the question: "Has it really gone away?"

The chairman of a UK life company said that it was "an ever present risk", with the recent changes in the UK annuity market opening up opportunities for mis-selling new savings products. A US actuary said that while some markets had improved, "there are areas of the world where it is still the Wild West". There are also legacy issues surrounding products which were sold in a previous and more lax regulatory regime.

Some respondents feared that the current market environment, with rising competition, pressure on prices and high regulatory costs would drive insurance companies to take on fresh risks in this area. As a South African broker put it: "There are more horses drinking from a shrinking trough". Although mis-selling was mentioned as the most prevalent bad business practice, other areas of concern included opaque policy terms and claims handling, which one respondent described as "often undervalued in this context". Tania Charles, an insurance risk consultant in New Zealand, said that insurers there had still not settled all claims four years after the Canterbury earthquake, with consequent damage to their reputations.

Is mis-selling back under control?



12. Quality of management (8)

Concern about the quality of management in insurance companies seems to be easing. This was a major issue in earlier years when the industry was seen to be worryingly short on management talent. The improvement follows on from the strengthening of governance at the board level (see No. 21) and closer regulation of the sector.

However there are still aspects of management that are open to risk. The biggest is the sheer size of the task: the challenges facing insurance industry leaders are multiplying - and growing in scale. Technology, regulation, structural change, complexity - insurance executives have to be on top of all these. "It's difficult to manage the fast new game changers" said an insurance consultant.

The question is whether the industry can find managers of sufficient calibre to deal with them. Some were doubtful: "The industry does not attract the talent that produces good leaders" said a company vice-president in Canada. Some respondents also commented that good underwriters did not necessarily make good managers.

A US respondent said that companies were dumbing management down by transferring responsibility "from experienced professionals in the major economic centres to cheaper personnel in non-major economic centres in the US and outsourcing work overseas." (See also **Human talent** No. 15).

But the overall tone of the responses in this section was more positive: management is improving, albeit unevenly, and scrutiny of its performance is stronger than ever. A senior Canadian insurance executive said that the regulators "will not let management slide as they may have in past".

Quality of insurance management is seen to be improving



13. Market conditions (-)

We introduced this Banana Skin this year to rank concerns about prolonged soft markets and their impact on profitability. Specifically, we asked whether the insurance cycle could result in poor market conditions for an extended period of time. The mid-table ranking of this risk suggests it is on respondents' minds, notably in the reinsurance sector where it topped the list, and North America where it was No. 6.

Concerns centre principally on excess capacity (see No. 22 **Capital availability**) and the pressure this is putting on insurers' margins. The chief financial officer of a non-life insurance company in New Zealand said: "New competitors and a surplus of capital will support a soft market for some time. Therefore traditional insurers will need to continually look at operational efficiencies".

The capacity being created by new sources of capital such as hedge funds, which have focused increasingly on insurance linked securities (ILS), is providing additional liquidity to the market. "Low returns available on conventional investments have driven the interest for hedge funds and pension funds to invest in catastrophe risk, leading in turn to soft market conditions", said a respondent in the UK. There were questions about how long this trend can last. Chris Wing, Asia Pacific chief financial officer of SCOR in Singapore, said: "I think that the rise of

Plagued by surplus capacity

ILS will ultimately plateau as soon as a material or series of material losses hit investors and the underlying risk/reward profile is clearer”.

For many, the key risk is what happens when the cycle turns. “The danger is that the longer the market spends in the doldrums the worse the storm when the cycle does change”, warned a respondent from the broking sector in the UK. The chief investment officer of a life insurance firm in Japan said: “Risk premiums are falling. Insurers are increasing risk to stretch for yield. This is the typical ‘pro-cyclical’ behaviour which happens before a market meltdown. Insurance companies will struggle to maintain discipline during this phase of the economic cycle. It’s unclear what the nature of the next financial crisis will be”.

Some respondents, however, wondered whether past insurance cycles were a good guide for things to come. “There are currently factors at play that are new, so it is hard to predict whether the conventional cycle will prevail,” said a reinsurance respondent in New Zealand, while the chief executive of a non-life insurer in Canada said: “I think greater sophistication in product pricing and segmentation will contribute to dampening the hard/soft cycles that have plagued this industry”. The point was also made that the need for insurance products will continue to increase with aging populations around the world and growing emerging economies.



14. Long tail liabilities (9)

Although concern about risks which take a long time to materialise seems to be easing, this remains a difficult area marked by uncertainty about claims and litigation, as well as the complexities of accounting and regulation.

The days of burgeoning asbestos claims may have passed, but insurers are constantly on the look-out for risks that might have a similar tendency to grow long tails. A respondent from France said: “Who knows what the next asbestosis or industrial disease or deafness or sexual abuse type injury will be? All that is for sure is that these will materialise and that the plaintiff end of the legal profession will have a field day.” Other respondents agreed that long tail liabilities will always be around: it’s a matter of spotting them amidst changing trends, and taking appropriate action. These are “unknown unknowns”, said one of them.

A number made the point that insurers have considerable experience of long tail risk and should be in a position to deal with it.

Managers who leave the “problem” to the next generation of managers are not “leaders” and are considered the root of the future crises in certain companies.

Swiss life insurance executive

A South African broker said: “One would assume that lessons have been learned from historic long tail liability exposures such as asbestosis, tobacco, power line radiation and the like.”

However, a number also raised questions about the management of these liabilities.

One said that “an overly tolerant accounting regime fuels the fire”, another saw the greatest risk in American litigiousness, and a third said that regulatory insistence on early provisioning tended to shut off potentially better ways of dealing with the problem. One example that was given of legal uncertainty was the 2014 Sentencing Amendment Act in New Zealand which has extended the ability of the New Zealand courts to award compensation for losses suffered as a result of personal injury.



15. Human talent (19)

Concern about the ability of the insurance industry to attract good talent is ever present in the Banana Skins survey, and is closely linked to the quality of management in the industry (see No. 12). This year, responses showed some striking geographic variances: the Far East Pacific region had this risk at No. 4 and Africa at No. 5. But in Europe and the Middle East Asia region it was among the bottom few.

For some respondents, the global financial crisis improved the insurance industry's standing as a career destination compared to other financial services. But there is still a feeling that it is seen as banking's unsexy cousin – particularly in economies where employment levels are rising and graduates can afford to be more choosy. One respondent in the US said: "Insurance has long trailed banking, consulting and the learned professions in attracting talent. That is already taking a toll and there is little sign that the industry is keeping pace."

Concern about industry ability to attract good people

But there are other disincentives for executive talent. The chief financial officer of a non-life insurance firm in South Africa warned: "The overzealous regulatory intervention is creating an unattractive business environment and insurance executives may well find other industries easier and more attractive". A shortage at senior levels is a particular concern in less developed markets: "Experience is and will continue to be lacking for the next 10 years in emerging countries where the insurance market grows faster than the employee supply", said a broker in Vietnam. Respondents also pointed to talent shortages in more technical areas: underwriting, IT, actuarial, legal and compliance.

But in Europe, where this risk came No. 22, many respondents were more sanguine. "Competition for the best professional profiles has always been high. The insurance sector offers great challenges and opportunities for its complexity and the need for adaptation", said the director-general of a credit insurance company in Spain.



16. Political interference (10)

The risk of political interference in the insurance industry is seen to be receding as the tension created by the financial crisis eases. A prominent theme in our previous survey was that insurers were being unjustly "bashed" like banks and subjected to politically driven controls. Concern about excessive regulation still tops the rankings, but there is less willingness to ascribe it to political motives. Many respondents said that political interference was not a problem, though levels vary greatly from one jurisdiction to another.

Where it was a problem, it usually took the form of government intervention to set terms in the name of consumer protection. A respondent from Canada said that "populist views rather than facts" were driving political interference in product design and pricing, with auto insurance in Ontario a long-running bugbear. Another from France said that "politicians are trying to force the insurance industry to pick up the tab for global warming, buildings on flood plains etc.", and another from Spain reported that "there has been much political interference in the industry beyond regulatory pressure". Another point of interference was on investment: a Finnish life actuary said that "the current situation pressures the life sector to fund European sovereigns in a low interest rate environment which would not have

happened under S1 regulation”, and an actuary in Argentina reported that life companies were required to invest one fifth of their portfolio in “regulated assets”.

Political risk is particularly strong in areas linked to public welfare, such as pensions and health, an issue described in more detail in No. 20 **Social change**.

When the lights go out

The ongoing electricity constraints expose our customers to the risk of business interruption, supply chain disruption, stock degradation, security issues and many related risks. In the least it causes an increase in operating costs. A total grid failure (assuming a black start, recovery would take no less than three weeks) would result in catastrophic claims, impacting both non-life insurers and reinsurers. Political instability, lacklustre economic growth, weakening pressure on emerging market currencies and a potential SA re-rating will all make for challenging trading conditions. These are major risks with causal factors largely out of the hands of corporate SA.

Chief risk officer

South African insurance group



17. Product development (20)

While the risk that insurers fail to develop the right products for their customers is not seen as urgent, it is rising from a low position. It is ranked higher in Europe (at No. 12) than the rest of the world – especially in the UK, where it came No. 5.

The typical concern is that markets are changing and insurers are not adapting fast enough. Damien Wood, assistant underwriter at UK non-life firm Giant, warned: “A lack of innovation is leading to an inability to provide effective yet profitable solutions for risks arising from new technologies (i.e. emerging cyber risks, drones, driverless cars, 3D printing, etc.)”. A non-life respondent from Canada said: “We need to evolve to earn the right to keep our customers”.

The risk is that the industry is producing products driven by supply rather than demand, which leaves the door open for nimble new entrants to catch established players off guard and disrupt the market. This is seen as both a threat and an opportunity. A consultant to the insurance broking sector in the US said: “Opportunistic capitalism has served our industry well. Newly discovered exposures such as cyber, EPLI [Employment Practices Liability] and alternative energy have all led to the proliferation of new products. I expect this trend to continue”.

But some respondents urged caution. The former chief executive officer of a life insurance company in Switzerland said: “We should not over-estimate the ‘product development’ hype. It is true that certain products can be adapted and tailored a bit here and there. But the basic mechanics do not change. Customers need clarity about the functioning of their products in case of ‘damage’. This is the real need to be serviced”. In the US, a respondent said it was “more likely insurers will develop products that are poorly priced than they will miss a chance at offering ways to attract money”.

Regulation is seen to be having a significant impact in this area, some thought, by making it more difficult for the industry to meet customer needs. Speaking about the

**Are insurers
adapting fast
enough to a
changing market?**

UK, a retired actuary said: "The current spate of pensions regulation could make it impossible for insurers to provide the right products when dumb government regulation encourages people to do very silly things with their pension pots. In a decade or so, this will come back to haunt the government(s) of the day."



18. Reputation (14)

Concerns about the reputation of the industry have eased somewhat since the last survey, for a number of reasons. The mis-selling scandals are slipping into the past, the banks are taking most of the flak for the financial crisis, and the industry itself is becoming more pro-active about polishing its image.

On the other hand, the job is far from done, and new developments like social media make reputational risk much harder to manage. Jacqui Thompson, head of finance risk and compliance at AA Insurance in New Zealand, said "This continues to be a major area of risk which is largely uncontrollable. The key is how to respond."

Perceptions of the scale of this risk varied widely, from countries like the UK and the Netherlands where there have been massive scandals to others like Spain and Mexico where respondents scored this as a low risk.

Many respondents argued that insurance has generally been held in low regard, and that the only way, therefore, must be up. A non-executive director at a UK non-life company said: "It is not a loved industry and therefore easy to damage the reputation". Much of this damage is self-inflicted, by bad conduct and poor public relations. A US broker said: "It is ever thus! As an industry, we continually shoot ourselves in the foot/feet, and television ads that treat insurance as a commodity exacerbate our collective reputation." Rick Murray, a US insurance consultant, said that "the industry invites disdain by its tendency to manage by looking in the mirror rather than out the window."

Some respondents raised the issue of trust and transparency: consumers were now wary of dealing with the industry, and this could weaken the franchise (see box). The vice-president of a Canadian non-life company said that "Overall, we need to improve the trust of our customers. We do care and want to provide great customer experience including fair claims payments."

The growth of social media could affect all this - for good or bad depending on the news that gets amplified. A respondent from Malaysia said that "pervasiveness via social media in a short time frame has made the industry very vulnerable." The ability of insurance companies to respond to social media was seen as critical, and some respondents made the point that media comments provided valuable insights into how companies were perceived.

Social media are making reputation management harder

Who needs insurance?

One of the fears that keeps insurers awake at night is that people may stop buying insurance – a product that has always been described as sold, not bought. Mis-selling scandals have severely damaged trust in the industry, raising questions about the value it offers, and whether people really need what one respondent described as “a grudge purchase”.

The uncertain economic situation has also caused a rise in lapse and cancellation rates and with them a view among consumers that they can manage by self-or under-insuring, as commercial companies have been doing for years.

A Dutch insurance director feared “the loss of interest of customers in insurance solutions”, while in New Zealand, a respondent worried that the rising cost of insurance - because of increasing regulation - would result in unintended consequences “such as higher levels of under-insurance”. A South African respondent said one of the biggest challenges facing the industry was “developing compelling insurance propositions for potential customers at a time when demand for instant gratification and tangible benefits dominates.”



19. Climate change (18)

Industry divided over the impact of climate change

Climate change continues to be seen as a low order risk to the insurance industry overall. But its low position conceals a deep division of opinion among respondents. About as many gave this Banana Skin the maximum severity rating as gave it the minimum rating. This divide can partly be explained by the sector breakdown: there was much more anxiety among non-life insurers (who ranked it No. 9) than life insurers (No. 23).

Another reason is that the impact of climate change on the industry is seen to vary widely depending on how far you look forward. “In the longer term, this is probably the greatest risk”, said the chief financial officer of a non-life company in France, while a consultant in the UK said the risk was: “Long term – massive; medium term – potentially significant in terms of increased frequency of large losses”. Threats that were highlighted included coastal and tidal floods from rising sea levels, more intense thunderstorms, and the effect of changing climates on agricultural-based economies.

But it also means the industry still has time to prepare for the worst consequences of climate change. The chief executive of a non-life company in Canada said: “Provided companies have the will, they can mitigate [the threat] through better risk segmentation and pricing”. An actuary in Bermuda, who called for the industry to take the lead in highlighting the “huge” risks it faced, nonetheless said: “Climate change ‘on average’ can be priced in, and increased volatility can be included in pricing and thus be covered”. A repeated point was that non-life insurers are typically able to change their premiums annually. “Climate change, although accelerating, is happening much more slowly than this”, a UK actuary pointed out.

Yet there is a fear that sophisticated pricing techniques which price certain risks associated with climate change out of the market could lead to reputational damage or even a public policy backlash.



20. Social change (-)

Societies are changing: population structures, social services, financial planning. Many of these changes are occurring in areas of direct interest to the insurance industry, so we decided, for the first time in this survey series, to seek insurers' views on the risks involved.

A threat and an opportunity

The fact that this Banana Skin came relatively low on the scale suggests that whatever risks there are, are not seen to be very pressing. However this is a complex area because of its proximity to matters of considerable public interest like health care and pensions, and the key risks mentioned by respondents reflected this fact.

Many started by saying that insurers were in the business of pooling risk, not supplying social services. And where they did supply products that met social needs, these had to be on a commercial basis. That said, many saw this as an area ripe with opportunity to innovate – and add lustre to the industry's reputation. An insurance consultant in France said that insurers "have always proven that they can reinvent themselves and propose new relevant offerings. Also there is no alternative as the public sector has given up in every country on this front".

[Social change] offers both a major opportunity and a threat to insurers. The state requires both help and innovation to address these issues. The business opportunities are considerable but the sector needs to learn the lesson from the past and overcome the poor public reputation from previous mis-selling events. The insurance profession must lead the way by creating propositions that are consumer centric and meet the public's future needs and help manage their risks.

David Thomson, director, policy and public affairs, Chartered Insurance Institute, UK

The risks essentially come down to the nature of the industry's relationship with the public sector: the official providers, the regulators and the policymakers. The head of planning and strategy at a large life company in Singapore said that "the risk and public expectations are high to begin with, but it has to be a public-private partnership that will enable governments and insurers to tackle the challenges together. It can't be done by insurers alone."

A US broker said: "Assuming insurers are allowed to charge actuarially 'appropriate' prices, products will be developed and available. However, absent the ability to make a fair underwriting profit, new products may not be developed and the availability of some products may be limited." Quite what happens then is a matter of conjecture. Political pressure? An insurance consultant in the Netherlands said: "These are society-wide issues that do not have a simple solution, but where society may 'force' insurers to find a solution." Many respondents cited regulatory or political obstacles to providing the right products: high capital requirements, tough health insurance rules, a ban on gender and age considerations in setting premiums,

and, as recently occurred in the UK, the removal of compulsory annuitisation as part of sweeping pensions reforms.

A UK respondent said "The risk is that insurers will fail by withdrawing from these markets due to an inability to develop value adding products for their customers." But others were more optimistic. One said: "I think the public understands the risk companies run and that impossible things cannot be asked of insurance companies."



21. Corporate governance (17)

Concern about the quality of corporate governance in the insurance sector is fading. Four years ago, at the height of the financial and mis-selling crises, this Banana Skin ranked No. 8. After falling in the last survey, it has fallen another four places this year.

Most of our respondents spoke positively of the quality of insurance company governance. A risk officer from the UK said that "boards are getting more professional", from South Africa: "Insurers generally have good boards", and from Canada: "Boards are more astute and engaged than ever." One respondent said that problems were "far less likely than with the banks, which are often too large to manage."

Where comments were negative they tended to be about the poor choice of board members and lingering cronyism. Andreas Bachofner, director of Shires Partnership in the UK, said: "Many board members stay on for too long. There should frequently be new board members to bring in different ideas from a different background. The old boys' network is a model of the past."

Respondents ascribed much of the improvement to closer regulatory scrutiny and the introduction of Solvency 2. Des Thomas, chief risk officer and actuary at MetLife in Japan, said that "requirements on board members have been strengthened in many countries". However the chairman of another life company was more sceptical: "If the regulators make key roles unattractive and talent goes elsewhere, the risk is high."

Concern on this front was strongest in emerging markets where progress has been slower. For example, it ranked Middle East (No. 13), Africa (No. 16) and Latin America (No. 18) (where one respondent described standards as "precarious") versus Europe (No. 21) and North America (No. 22).



22. Capital availability (16)

Four years ago this Banana Skin was ranked No. 2 amid urgent concerns about capital shortages with the impending requirements of the EU's Solvency 2 Directive. Now the risk has been turned on its head.

Due to low interest rates and soft market conditions, the problem is a surfeit of capital creating intense competition, particularly in reinsurance. A respondent from New Zealand said: "The current oversupply will put real pressure on profitability. It will also create an expectation of supply that may not be matched in the event of a global or significant local event".

**Insurance
companies are
seen to be
better run**

Too much capital now, but S2 can change that

The danger is that this situation will press insurers to take extra risks to meet their return targets. An analyst at a non-life insurance company in the UK warned: “Too high dependency on capital is dangerous. We need to go back to basics: run a pool based on risk exposure and losses, not based on availability of capital”.

The impact of regulation adds to the uncertainty. One insurance consultant said of Europe: “The real issue in the life side is that no-one knows what the impact of Solvency 2 is on capital levels”. Others warned that consolidation of the market resulting from changing regulation could concentrate capital in the hands of the largest insurers.

Lots of capital continues to see the insurance market as attractive, despite those in the market viewing it less favourably.
Director, actuarial
German non-life company

The emergence of “new” types of alternative capital will require traditional firms to reinvent themselves to remain relevant – rather than, as one respondent in the US put it bluntly, maintaining “a narcissistic self-deception that the traditional insurance model of risk transfer owns the space”.

Several respondents questioned how long the current situation can last. “Over-capitalisation is prolonging the soft market to the point of unsustainability”, said the executive director at one brokerage in the UK. On the other hand, Solvency 2 requirements could exhaust the surplus quite quickly.



23. Terrorism (27)

Though it has risen off the bottom of these rankings, terrorism continues to be seen as a low order underwriting risk.

While many saw the likelihood of terrorist attacks around the world increasing – particularly in the Middle East and parts of Africa – their impact as an underwriting risk for the insurance industry was generally downplayed. A repeated point was that such events are often excluded from policies. “In our market the Insurance Compensation Consortium limits risk”, said a non-life respondent from Spain. A respondent in India called the risk “moderate and manageable”; another in the UK said it is “not an industry-threatening issue”.

A few respondents did voice more serious concerns. There is “lots of naïve underwriting” going on, said the chief risk officer of a non-life insurance firm in the UK, while Ed Berko, chief risk officer at The Economical Insurance Group in Canada, said: “This is an evolving and increasing risk that poses a significant threat to life and non-life insurers”.

Seen as more serious than the underwriting risk, however, was the possibility that the financial services sector as a whole could become a target for terrorism to destabilise financial markets. The likelihood of an attack getting through has been amplified by cyber-terrorism. A reinsurance respondent from Spain warned the threat was not of a “classic” attack, but rather “cyber attacks to bring down information systems in the near future”.



24. Pollution/contamination (26)

This is the lowest ranked of the major underwriting risks: it does not appear inside the top 20 in any of the regions or sub-sectors we surveyed, which is in line with the past record.

A localised risk

The reason is that pollution and contamination is generally seen as a localised risk: higher for certain product providers but not a systemic issue. Many respondents pointed out that coverage in the industry is typically limited. “Even a large pandemic would moderately affect our P&L”, said the chief risk officer of an insurance group in Belgium.

Yet some saw this as a more serious problem than it might seem on the surface. The chief executive of a health insurance company in Australia admitted: “To the extent that chronic disease can occur many years after exposure, we do not yet know our claims potential. It is likely to increase though”. In South Africa, one respondent said: “There are generally hidden long tail liability issues where the potential exposure is already known by a few but the ultimate impact is knowingly or unknowingly not divulged”.

Emerging technologies could also bring a new dimension to this risk. A UK risk officer said it was becoming: “a more challenging area as new materials and technologies are being put in place - i.e. nanotechnology and complex waste disposal issues, mining, etc.”



25. Complex instruments (23)

This year’s lowest rated Banana Skin has fallen sharply since coming No. 8 in 2009 with the crisis at AIG. The general view is that the industry has learned its lesson and that insurers’ exposure to derivatives and exotic products is low.

Painful lessons learnt

Many pointed out that regulatory oversight in this area remains especially stringent. “New clearing and collateral requirements will make derivatives significantly more expensive”, said one respondent from the UK. An actuary in Argentina noted: “In many countries, particularly emerging or frontier ones, [complex instruments] are strictly forbidden”.

Yet some responses urged vigilance. Insurers generally tend to use derivatives for hedging purposes rather than speculation, but there were fears that complex instruments are still poorly understood. “Hedging products can often be effective but should never be considered a complete risk elimination tool”, said an underwriter in the UK. The danger lies in short memories and complacency. “Hope has already threatened prudence”, warned one US consultant.

Another reason not to take this risk lightly is that low interest rates are increasing incentives to chase higher returns through other asset classes. “Insurers which are desperate for investment income may seek these instruments and get them wrong,” said Peter Harris, managing director of CBL Insurance in New Zealand. “It comes down to some insurers which have a lack of underwriting profits risking a desperate drive to derive investment income to make up for it”.

Insurance Banana Skins: The Top Ten since 2007

2007	2009	2011
1 Too much regulation	1 Investment performance	1 Regulation
2 Natural catastrophes	2 Equity markets	2 Capital
3 Management quality	3 Capital availability	3 Macro-economic trends
4 Climate change	4 Macro-economic trends	4 Investment performance
5 Managing the cycle	5 Too much regulation	5 Natural catastrophes
6 Distribution channels	6 Risk management	6 Talent
7 Long tail liabilities	7 Reinsurance security	7 Long tail liabilities
8 Actuarial assumptions	8 Complex instruments	8 Corporate governance
9 Longevity assumptions	9 Actuarial assumptions	9 Distribution channels
10 New types of competitors	10 Long tail liabilities	10 Interest rates

2013	2015
1 Regulation	1 Regulation
2 Investment performance	2 Macro-economy
3 Macro-economic	3 Interest rates
4 Business practices	4 Cyber risk
5 Natural catastrophes	5 Investment performance
6 Guaranteed products	6 Change management
7 Quality of risk	7 Guaranteed products
8 Quality of management	8 Distribution channels
9 Long tail liabilities	9 Natural catastrophes
10 Political interference	10 Quality of risk management

Some risks come and go; some are hardy perennials, as this chart of the Top Ten Banana Skins since 2007 shows.

The strongest contender by far is regulation which topped the first survey in 2007 and three of the four succeeding surveys in 2011, 2013 and 2015. The only year it slipped down the rankings was 2009 when more pressing concerns about the global financial crisis occupied people's minds. The reasons for its strong showing have remained constant: too much and too expensive. Another strong contender is investment performance which burst into No. 1 position during the crisis in 2009 and has remained in the top five ever since, though the reasons have shifted. Initially it was driven by losses from the market crash; now the concerns are about the persistence of low yields. Hence, too, the appearance of interest rate risk at No. 3 this year. Concern about the macro-economic situation has shown a similar pattern.

Among industry risks, the quality of governance and management started high but have gradually slipped down the list until they disappeared out of the Top Ten for the first time this year, reflecting the view that insurance companies are now better run. Among underwriting risks, natural catastrophes have always loomed large, though in an up and down pattern shaped by recent events. Concern about climate change, by contrast, slipped from No. 4 in 2007 and has never reappeared in the Top Ten.

The new risks to watch are cyber, which appeared dramatically at No. 4 this year and has yet to be fully scoped, and change management (No. 6) as the industry grapples with the forces of the new.

APPENDIX: The questionnaire

CSFI

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Insurance Banana Skins 2015

Each year we ask senior insurers and close observers of the financial scene to describe their main worries about the insurance industry as they look ahead. We'd be very grateful if you would take a few minutes to complete this latest survey for us.

Name	<input type="text"/>	Position	<input type="text"/>
Institution	<input type="text"/>	Country	<input type="text"/>

Which part of the insurance market do you represent?

Broking/intermediary	<input type="checkbox"/>	Life	<input type="checkbox"/>	P&C/Non-life	<input type="checkbox"/>
Reinsurance	<input type="checkbox"/>	Other (please state)	<input type="text"/>		

Replies are in confidence to the CSFI, but if you are willing to be quoted by name in our report, please tick ☐

Question 1. Please describe your main concerns about the risks facing the insurance industry as you look ahead over the next 2-3 years.

Please turn over

Question 2. Here are some areas of risk which have been attracting attention. Please score them on a scale of 1 to 5 where, in your opinion, 1 is a low risk to insurers and 5 is a high risk. Use the column on the right to add comments. Add more risks at the bottom if you wish.

	Risk		
	1=low	5=high	Comment
Economic environment			
Macro-economy: To what extent does the current macro-economic environment present a threat to the insurance sector, eg from recession, deflation/inflation?			
Interest rates: How large is the risk that insurers will be damaged by movements - or lack of movement - in interest rates?			
Public environment			
Political interference: How great is the risk that political pressure will damage insurers, eg through interference in business practices, pressure to underwrite particular risks etc.?			
Regulation: To what extent could the current wave of new regulation as to capital requirements and conduct of business have damaging effects on insurers?			
Reputation: How severe is the risk that the industry will be damaged by a poor reputation or by social media?			
Social change: How great is the risk that insurers will fail to meet social pressures such as greater longevity, demand for health care, pensions, etc?			
Industry risk			
Capital availability: To what extent is a shortage or surplus of capital currently a risk to insurance providers?			
Change management: How likely is it that insurers will be damaged by inadequate responses to pressures for change, eg in industry structure, markets, customer demands, technology?			
Complex instruments: What is the potential for insurers to suffer losses through their dealings in derivatives and other exotic products?			
Cyber risk: What is the risk of insurers becoming the victims of cyber crime, software failure or data security?			
Distribution channels: What is the risk that insurers will fail to make best use of new distribution channels and advanced technologies to reach their clients?			
Guaranteed products: With the low interest rate environment persisting, how much risk is there to insurers' capital and solvency from guarantees in products?			
Human talent: How likely is it that insurers will have difficulty attracting and retaining talent in the present environment?			

Please turn over

Investment performance: What is the risk that insurers will be harmed by poor investment performance?		
Long tail liabilities: How likely is it that insurers will be damaged by liabilities which take a long time to materialise?		
Market conditions: What is the risk that the insurance cycle will result in poor market conditions for an extended period of time?		
Product development: How likely is it that insurers will be harmed by a failure to develop the right products for their customers?		

Governance

Corporate governance: How likely is it that weakness at board level will lead to poor oversight and control of insurance companies?		
Quality of management: How likely is it that insurance companies will be harmed through poor management?		
Quality of risk management: How likely is it that insurers will incur losses as a result of inadequate risk management?		
Business practices: How high is the risk that insurers will incur losses as a result of poor sales and other conduct of business practices?		

Underwriting

Climate change: How severe a risk do you think climate change poses to the insurance industry?		
Natural catastrophes: How severe a risk do you think natural catastrophes pose to the insurance industry?		
Pollution/contamination: How severe a risk do you think problems of pollution and contamination pose to the insurance industry?		
Terrorism: How severe a risk do you think acts of terrorism pose to the insurance industry?		

Please add other risks that you feel are significant to the insurance industry.

Question 3. How well prepared do you think insurers are to handle the risks you have identified, where 1 = poorly and 5 = well? Please add comments if you wish.

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Thank you

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