
Press Release

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Pages: 3

WAVE OF NEW REGULATION TOPS INSURANCE SECTOR RISKS
'Banana Skins' poll pinpoints key concerns for insurers

The greatest risk currently facing the insurance industry comes from the wave of new regulations which are being introduced at international and local levels, according to a new survey which ranks insurance sector risk.

The CSFI's latest *Insurance Banana Skins* survey, conducted in association with PwC, says that new rules governing issues such as solvency and market conduct could swamp the industry with costs and compliance problems. It could also distract management from the more urgent task of running profitable businesses at a time when the industry is under stress.

The survey polled over 600 insurance practitioners and industry observers in 54 countries to find out where they saw the greatest risks over the next 2-3 years. Regulatory risk emerged a clear leader in many major markets, including North America, Europe, and the Far East/Pacific.

This is the second successive *Banana Skins* survey which has identified regulation as the top risk concern for insurers, underlining the continuing uncertainty surrounding major regulatory initiatives.

The EU's Solvency II Directive, now in its seventh year of planning, was the focus of strongest concern, particularly since many non-EU countries are awaiting the outcome before they finalise plans of their own.

A related set of risks lay in the area of business practices (No. 4), another area of regulatory scrutiny. Despite the huge amount that has been done by companies and regulators to clean up practices such as mis-selling, this is still seen as an area of high risk particularly at a time of economic stress when pressure to generate sales is strong.

Other high-ranking concerns revealed by the survey included the uncertain state of financial markets (No. 2) and the world economy (No. 3). These are adding to the pressures on an industry which has been squeezed by years of low interest rates and intense competition. A

Insurance Banana Skins 2013
(2011 ranking in brackets)

- 1 Regulation (1)
- 2 Investment performance (4)
- 3 Macro-economic environment (3)
- 4 Business practices (18)
- 5 Natural catastrophes (5)
- 6 Guaranteed products (-)
- 7 Quality of risk management (15)
- 8 Quality of management (14)
- 9 Long tail liabilities (7)
- 10 Political interference (11)
- 11 Distribution channels (9)
- 12 Actuarial assumptions (12)
- 13 Innovation (-)
- 14 Reputation (16)
- 15 Change management (-)
- 16 Capital availability (2)
- 17 Corporate governance (8)
- 18 Climate change (20)
- 19 Human resources (6)
- 20 Product development (24)
- 21 Social media (-)
- 22 Crime (22)
- 23 Complex instruments (19)
- 24 Reinsurance (21)
- 25 Back office (17)
- 26 Pollution (25)
- 27 Terrorism (23)

Insurance Banana Skins 2

particular focus of concern was the legacy of products which offer guaranteed returns but cannot be profitably funded at today's low yields (No. 6).

The continuation of difficult market conditions has also put the spotlight on the quality of management (No. 8), and particularly risk management (No. 7).

This year's survey showed continuing concern about underwriting risks in natural catastrophes (No. 5) given the greater frequency of events, and the rising cost of claims. In some markets, such as New Zealand and Australia, the insurers' handling of catastrophe claims has become a major political issue.

On the other hand, a number of risks have fallen in urgency, notably concern about the availability of capital to sustain the industry (down from No. 2 to No. 16). The situation is now reversed: there is excess capital in the industry, particularly on the non-life and reinsurance sides, which is keeping prices soft and hurting profitability. Another receding risk, at least in developed markets, is human resources: the shake-out in the financial services sector has made it easier to recruit and keep good talent. The situation is harder in emerging markets where qualified talent remains in short supply in many markets.

David Lascelles, survey editor, said:

“It is ironic that the industry's greatest risks are seen to come from regulation, which is intended to reduce risk, at a time when operating and underwriting conditions are also very hard. It is no surprise that these pressures are reflected in rising concern about the ability of management to handle them.”

David Law, global insurance leader at PwC, said:

“Once again regulation is the number one risk. The fragile economic environment and subdued investment performance also remain high on the list of concerns. Managing these challenges is clearly a critical boardroom priority.

“But there's a risk that by solely focusing on these recurring issues insurers could miss other threats and opportunities coming up over the horizon. The industry faces transformational shifts in technology and customer expectations, which are reshaping how insurance is sold, how risk is priced and even what we mean by insurance. These developments could open the way for nimble new entrants or other financial services players to move in and pick off profitable business.”

A breakdown of the insurance industry by sector shows the life side specifically concerned about the impact of low interest rates on investment performance, and the task of managing complex and competitive retail distribution networks. On the non-life side, the main concerns are with excess capacity and competitive pricing, along with the impact of surging catastrophe claims. Concerns in the reinsurance sector are mainly with the security of capacity in a highly competitive market.

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Notes to Editors:

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2. The Insurance Banana Skins survey was conducted in March and April 2013 and is based on 662 responses from 54 countries. The breakdown by type of respondent was:

	%
Non-life	35
Life insurance	26
Reinsurance	7
Brokers	6
Observers	26

Insurance Banana Skins 3

3. The survey is the latest in the CSFI's long-running Banana Skins series on financial risk. Previous *Insurance Banana Skins* surveys were in 2007, 2009 and 2011. It can be downloaded from the CSFI website: www.csfi.org or from the PwC website: www.pwc.com
4. The CSFI (Centre for the Study of Financial Innovation) is a non-profit think-tank, founded in 1993, which looks at challenges and opportunities for the financial sector. It has an affiliate organisation in New York, the New York CSFI.
5. PwC is a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. More information is available at the firm's website, www.pwc.com