Reinsurers rank climate change as top risk facing global insurance industry

‘Climate change now seen as immediate threat to industry’

Hamilton, Bermuda, 5 November 2021 - PwC’s Insurance Banana Skins 2021 Survey reveals that climate change is the highest-ranked risk by reinsurers, with many respondents pointing to a sharp rise in natural catastrophes.

Next on the list, reinsurers are concerned about “very bureaucratic” regulation “which is costly to manage”, and third-ranked is the concern about cybercrime worldwide.

In the global edition of the survey of more than 600 insurance industry leaders and executives in 47 territories, climate change is the fastest rising risk and moves into the top 5 for the first time. But the number one risk - according to life, non-life, reinsurance and composite insurers globally - is cybercrime, followed by regulation and then technology. The survey was carried out in conjunction with the Centre for the Study of Financial Innovation (CSFI).

In the reinsurance edition of the survey, Bermuda market respondents in particular are more worried than average about operating risks and the public environment. On the other hand, economic risks are seen as more manageable. Interest rates and investment performance are lower areas of concern than they were globally, one Bermuda respondent noting that: “Low investment return hampers insurance company returns, but should not cause permanent harm”.

As is the case elsewhere, governance risks ranked low.

Arthur Wightman, PwC Bermuda leader and Insurance leader, commented: “It’s clear from our biennial survey that the impact of climate change is now seen as a far nearer-term risk to insurers and reinsurers than previously considered. The industry is also gravely concerned that the wider implications of climate change are difficult or impossible to predict.”
The worldwide focus on climate change as part of the wider ESG agenda is resulting in a step-change for the insurance industry. Reporting requirements are increasing, and governments and regulators continue to press companies to better articulate and explain how they are quantifying and managing the related risks.

Wightman said: “This week’s COP26 discussions are an opportunity for the insurance industry to highlight the unique and critical role it can play in bringing its expertise and resources to help address the formidable challenge of climate change and help the world go faster to net zero.”

It is noteworthy that pandemic did not feature at all in PwC’s last report, nor is COVID19 seen as a significant Banana Skin by the industry in the 2021 report either.

Crime and particularly cyber crime sits top of the risks considered by insurers for the first time in the global edition of PwC’s survey. A high ranking risk for a number of years, the increase in virtual working and the type, volume and success of cyber threats further elevated this risk in the view of insurers. Insurers are also uniquely impacted by the insurance policies which are sold to cover companies when they are hit with cyber attacks, and ransomware in particular.

Matt Britten, risk assurance partner, PwC Bermuda said: “As organisations introduce cloud-computing and new digital solutions with the increase in virtual working, the challenge for insurers has become more complex than ever. The rise in the risk posed by cybercrime reflects concern about both the vulnerability of insurers’ systems to cyber attacks, and the costs of underwriting cyber insurance. Of significant concern is that insurers may be underestimating the potential costs of cybercrime when writing policies.”

A selection of quotes from Bermuda market respondents:

Climate change: “The risk to general insurers is clear, with each passing year seemingly breaking records for wildfires, hurricanes, flooding etc. Life insurers are not immune to these risks either though - whether through the physical risk (e.g., to real estate assets) or through transition risk (e.g., changing laws and/or market sentiment), asset portfolios could suffer losses.”

Regulation: “[The] impact on creating higher barriers to entry, the cost burden it brings, and most importantly the negative impact it has on reducing the industry's risk tolerance and appetite for taking on risk.”

Political risk: “Covid has impacted the level of trust in the insurance industry especially where the market was perceived 'not to be paying up' when needed. This has potential repercussions.”

Crime: “Cybersecurity (and protection of personal data) feel particularly relevant given the rise in ransomware attacks across various industries.”

Capital availability: “Inflation/higher interest rates will be positive for life insurers but a negative for P&C.”

What global reinsurer respondents said:
In Singapore, the vice president of a reinsurer said: “The increasing frequency and severity of natural disasters like cyclones and floods is requiring constant calibration of our pricing and capital allocation strategies”.

The chair of a UK-based insurer said the main risk to the industry was the “ability to shape proper models that reflect the added risk of global climate change in a local context”.

“With significant increases in cyber incidents around the world - including Asia - pricing is looking to be inadequate for cyber coverage that has been provided in the market”, said the vice president of a reinsurer in Singapore

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