

## PRESS RELEASE

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**WAVE OF NEW REGULATION TOPS INSURANCE SECTOR RISKS  
Investment performance continues to concern local insurers  
'Banana Skins' poll pinpoints key concerns for Bermuda insurance sector**

The greatest risk facing the insurance industry is the raft of new regulations being introduced simultaneously at international and local levels, according to the 2011 edition of a survey which ranks insurance sector risk.

The CSFI's latest *Insurance Banana Skins* survey, conducted in association with PwC, concludes that at a global level 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 already under stress.

The survey polled nearly 500 insurance practitioners and industry observers in 40 countries to find out where they saw the greatest risks over the next 2-3 years. Regulatory risk emerged a clear leader in all major markets.

Although Bermuda (re)insurers responding to the survey also listed regulation as a major concern, they voted investment performance as the greatest risk they face – the same result as in the previous survey in 2009.

Bermuda results were from a highly specialist respondent group consisting exclusively of property/casualty insurers and reinsurers. Nonetheless, many of the top concerns echoed those at a global level: the impact of new regulations, the uncertain state of the world economy, low investment yields and trends for key determinants such as interest rates.

The Bermuda industry's more specialised concerns appeared in the higher than average ranking of natural catastrophe and other underwriting risks such as terrorism and climate change, plus the depressed level of premiums due to the down phase of the cycle,

### Insurance Banana Skins 2011

(2009 ranking in brackets)

- 1 Regulation (5)
- 2 Capital (3)
- 3 Macro-economic trends (4)
- 4 Investment performance (1)
- 5 Natural catastrophes (22)
- 6 Talent (-)
- 7 Long tail liabilities (10)
- 8 Corporate governance (17)
- 9 Distribution channels (16)
- 10 Interest rates (11)
- 11 Political risk (18)
- 12 Actuarial assumptions (9)
- 13 Managing costs (14)
- 14 Management quality (13)
- 15 Risk management (6)
- 16 Reputation (15)
- 17 Back office (24)
- 18 Retail sales practices (25)
- 19 Complex instruments (8)
- 20 Climate change (28)
- 21 Reinsurance (20)
- 22 Fraud (23)
- 23 Terrorism (26)
- 24 Product development (29)
- 25 Pollution (34)
- 26 Managing mergers (31)

reflecting that the survey took place at the start of the year, before some of the events that seem likely to drive an improvement in rates. Concern about reinsurance risk was also higher than elsewhere, as was political risk. On the other hand, the Bermuda market was much less concerned than others about the availability of capital, and quality talent.

The EU's Solvency II Directive, due for implementation by the end of this year, was the focus of strongest concern for many jurisdictions, including Bermuda, as the market works towards equivalency. Interestingly, responders from Bermuda were more confident about how prepared the industry was to deal with such risks than responders from other countries.

Despite a high incidence of floods, bombings and oil spills over the last couple of years, concern about climate change, terrorism and pollution risks remains low. These are seen to be manageable underwriting risks, and less threatening to the market than regulatory change.

Andrew Smith, from PwC's regulatory advisory team commented that "It is clear the attention of many Chief Risk Officers is currently on regulatory change. To gain a competitive advantage, (re)insurers need to move the regulatory burden away from dealing with each regulatory challenge individually to something that becomes a natural consequence of the way risk is embedded in the business."

Caroline Foulger, PwC's insurance and reinsurance leader, added that "The Bermuda participants' responses are consistent with our expectations. Capital is less of a key focus, reflecting the sophisticated capital management techniques in play by these market players. While natural catastrophes are always a focus for the Bermuda market, the rating at #3, below investment performance risk at #1, demonstrates the confidence of the Bermuda market in the risks they can control by their own underwriting, versus those where they are more influenced by macro economic trends."

Colm Homan, PwC's Advisory leader noted that "The increased focus on political risk likely reflects the on potential changes in the US tax regime and the efforts towards on gaining Solvency II equivalence; it is no surprise to see that these risks are currently front of mind."

**ENDS**

Insurance Banana Skins 2011 - Bermuda			
(2009 ranking in brackets)			
1	Investment performance (1)	14	Terrorism (9)
2	Regulation (8)	15	Actuarial assumptions
3	Natural catastrophes	16	Distribution channels
4	Interest rates (6)	17	Climate change
5	Macro-economic trends (2)	18	Back office
6	Political risk	19	Capital (3)
7	Corporate governance	20	Pollution
8	Reinsurance (5)	21	Managing costs
9	Complex instruments	22	Management quality (10)
10	Reputation	23	Retail sales practices
11	Long tail liabilities	24	Fraud
12	Risk management	25	Managing mergers
13	Talent	26	Product development

**Notes to Editors:**

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2. The Insurance Banana Skins survey was conducted in March and April 2011 and is based on 490 responses from 40 countries. The breakdown by type of respondent was:

	%
Life insurance	29
Non-life	29
Composite	11
Reinsurance	6
Brokers	6
Observers	19

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 2008 and 2009.

4. The CSFI (Centre for the Study of Financial Innovation) is a non-profit think-tank, founded in 1993, which looks at challenges to and opportunities for the financial sector. It has an affiliate organisation in New York, the New York CSFI.

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