

# *Keeping pace with change*

## Insurance Banana Skins 2017: A Singapore observation



## ***About the Insurance Banana Skins survey***

Insurance Banana Skins 2017 surveys the risks facing the insurance industry in early-2017, and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

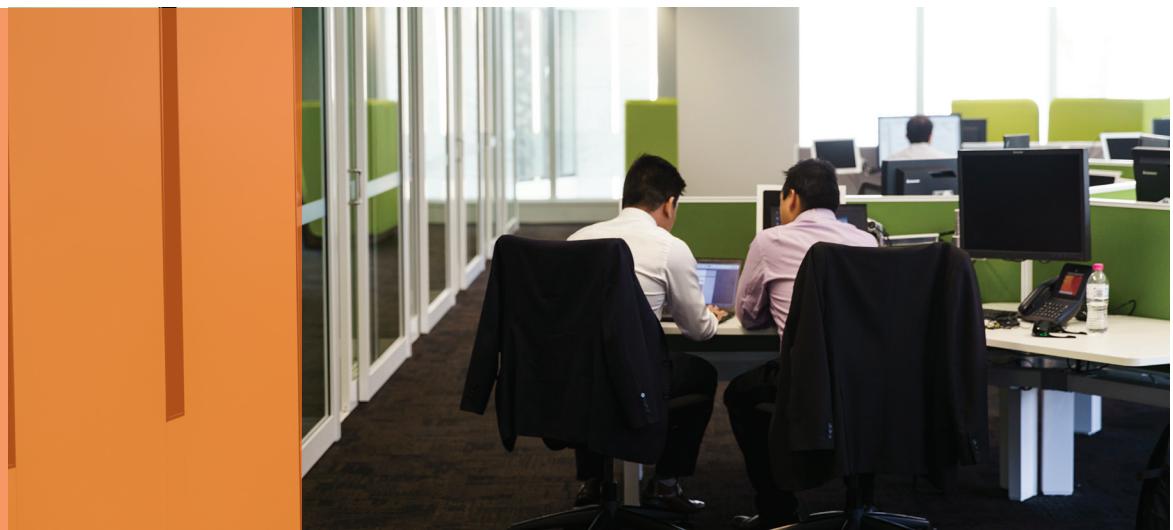
The report, which updates previous surveys in 2007, 2009, 2011, 2013, and 2015, was conducted in January and February 2017, and is based on 836 responses from 52 countries, including 32 respondents from Singapore.

The questionnaire (reproduced in Appendix E) was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the insurance industry 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 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, 2011, 2013, and 2015. The report is prepared by the CSFI, which is solely responsible for the editorial content, with support from PwC.

For the global report, visit [www.pwc.com/insurance](http://www.pwc.com/insurance)



## **Heightened level of anxiety**

**Level of preparedness in responding to risks have yet to measure up**



The overall tone of the responses from Singapore's insurance players this year suggests greater pessimism in the industry. Compared to the previous survey in 2015, Singapore's Banana Skins Index score - which implies the industry's level of anxiety in responding to risks - rose from below the global average in 2015 to above it this year (Figure 1). Meanwhile, the country scored below the global average (where it tied with in 2015) in the Preparedness Index – which reflects how prepared the industry is in handling the risks identified – alongside other global financial centres such as Germany, the USA and the UK (Figure 2).

On the whole, concerns around change dominate Singapore's insurance risk climate. Propelled by technological advances that challenge traditional structures, industry players are now finding themselves in a heightened state of needing to adapt to disruptions and rapid changes. Hamstrung by legacy systems, anxiety levels concerning operating and technology risks are on the rise along with increased competition from new entrants. In addition, these threats have replaced the regulatory environment as the industry's chief source of anxiety. All these bring into question whether incumbents have what it takes - the right strategy, talent, management and mindset – to keep up with the pace of change. Based on the survey responses, PwC explores the top 10 insurance areas of risks, or "Banana Skins", in Singapore in order to shed light on the shifting threats facing the local industry.

Figure 1: The Banana Skins Indices, Singapore, 2015-2017 (scale of 1 to 5)

Banana Skins Index		Preparedness Index	
2015	2017	2015	2017
Singapore – 3.10	Singapore – 3.35 (↑ 0.25 points)	Singapore – 3.20	Singapore – 2.77 (↓ 0.43 points)
Global – 3.21	Global – 3.31 (↑ 0.10 points)	Global – 3.20	Global – 3.02 (↓ 0.18 points)

Figure 2: The Banana Skins Indices, selected territories, 2017 (scale of 1 to 5)

Banana Skins Index		Preparedness Index	
Singapore	<b>3.35</b>	Global	<b>3.02</b>
Global	<b>3.31</b>	USA	2.85
UK	3.26	Singapore	<b>2.77</b>
USA	3.18	UK	2.71
Germany	3.13	Germany	2.70

**Note:**

The Banana Skins Index measures the average score given by each country to the 22 risks listed in the questionnaire (Appendix E). The higher the score, the greater is the implied "anxiety level".

The Preparedness Index measures the average response given to the question: "How well prepared do you think the insurance industry is to handle the risks you identified?" where 1=Poorly and 5=Well. The higher the score, the greater is the implied level of preparedness. Note that both indices are "self-scored".

## Shifting threats: The risers, fallers and newcomers

### 2017 top 10 Insurance Banana Skins

Figure 3: Overview of top 10 Banana Skins

Ranking	Global	Asia Pacific	Singapore	
			2017 Threats	2015 Ranking
# 1	Change management	Change management	Change management	#5 ↑ 4 places
# 2	Cyber risk	Technology	Technology	Newcomer*
# 3	Technology	Cyber risk	Quality of management	#8 ↑ 5 places
# 4	Interest rates	Investment performance	Competition	Newcomer*
# 5	Investment performance	Human talent	Cyber risk	#4 ↓ 1 place
# 6	Regulation	Reputation	Human talent	#2 ↓ 4 places
# 7	Macro-economy	Quality of management	Macro-economy	#9 ↑ 2 places
# 8	Competition	Business practices	Investment performance	#14 ↑ 6 places
# 9	Human talent	Interest rates	Interest rates	#6 ↓ 3 places
#10	Guaranteed products	Competition	Quality of risk management	#7 ↓ 3 places

\*Newcomers are the new threats added into the list of Insurance Banana Skins which were not included in previous years' reports.

## Newcomers to the list



### Technology – ranked #2

Identified as one of the top three risk areas by insurers (ranked #2 in Singapore and in Asia Pacific, and #3 globally), technology is a common theme in virtually all the major changes facing the industry. According to our global report, legacy systems that are “designed decades earlier” is a much-repeated concern faced by incumbents in every sub-sector across the industry.

The risk of failing to keep up with technological changes subsequently exposes Singapore’s incumbents to yet another cluster of risks that are also among this year’s top five threats: increased competition (ranked #4 in Singapore) followed by cyber risk (ranked #5).



### Competition – ranked #4

Ranked as a higher concern in Singapore (compared to #10 in Asia Pacific, and #8 globally), industry players are faced with tougher local competition in part due to the country’s limited market size. Competition is further intensified with the Monetary Authority of Singapore (MAS) moving forward with regulatory developments to drive digital innovation and develop the industry’s digital ecosystem, paving way for the entry of new and pure-play players, which pose to disrupt industry fundamentals such as pricing and structure.

Looking beyond the domestic market, foreign competition is also a source of concern as industry players race to secure growth opportunities in foreign economies, particularly countries in the Southeast Asia region. Globally, we also observe a trend of excess capital flowing into the insurance industry, contributing to greater competition between industry players.



## Notable risers



### Change management – ranked #1 (moved up 4 places from 2015)

Fuelled by a multitude of changes - evolving markets, technological advances, rising customer expectations, new distribution channels and more - ongoing disruption is the new normal facing the industry. Ranked #5 in 2015, the challenge of keeping pace and dealing with disruption has propelled change management to the top of industry players' Banana Skins list in Singapore, Asia Pacific and globally.

The result also reflects concerns about the industry's ability to address the formidable agenda of digitisation and new competition which confronts it. According to one local respondent, "Change is only going to get faster. Insurers with legacy systems need to find a faster and more cost efficient way to adapt to new changes."



### Quality of management – ranked #3 (moved up 5 places)

Making it into Singapore's top three Banana Skins this year, the climb of quality management is indicative of the increasing complexity of the local market; one of the reasons why it emerged as a higher concern in the country compared to its Asia Pacific (ranked #7) and global (#14) positions. The rankings also reflect the local industry's awareness of the interconnectivity between quality of management and effective change management.

Underlying this Banana Skin are risks concerning human talent (ranked #6 in Singapore) as insurance industry managers are now expected to raise the bar in guiding their organisation through a climate of change and emerging threats (e.g. cyber risks), which demand fresh thinking and innovative approach. As pointed out by a chief innovation officer of a life insurer in Singapore, "Managers are seen as custodians of the existing business model. They shouldn't be. They must be seen as change-agents, forging ahead designing the new business model for tomorrow's customers". Another local respondent also commented, "The industry is getting more complex, and the right kind of people are needed to steer the industry in the correct direction."



### Investment performance - ranked #8 (moved up 6 spots)

While investment performance ranks lower in Singapore when compared to its Asia Pacific (ranked #4) and global (ranked #5) positions, this Banana Skin leapt six places from 2015 in Singapore (where it ranked #14), reflecting local players' growing concern about the investment scene.

The combination of low interest rates and volatile equity markets has made it harder for insurance companies to find suitable long-term assets to match liabilities that generate adequate returns. In Singapore, we observed a shift away from guaranteed products to more protection and investment-linked products as industry players navigate the increasingly difficult investment climate.

## Notable faller



### Regulation - ranked #13 (dropped 12 spots from 2015)

Ranked #1 in 2015 (amid the introduction of new regulatory requirements such as RBC2 and FAIR), regulations dropped off Singapore's top 10 Insurance Banana Skins list for the first time since 2013. While mastering regulation may still be a challenge, the easing of concerns over regulatory risks suggests that industry players are getting accustomed to the regulatory environment. Nevertheless, concerns persist. A local respondent indicated, "Still too early to tell. For RBC2, whilst there is a fair amount of consultation on requirements, how the regulator would set minimum thresholds is still unclear".

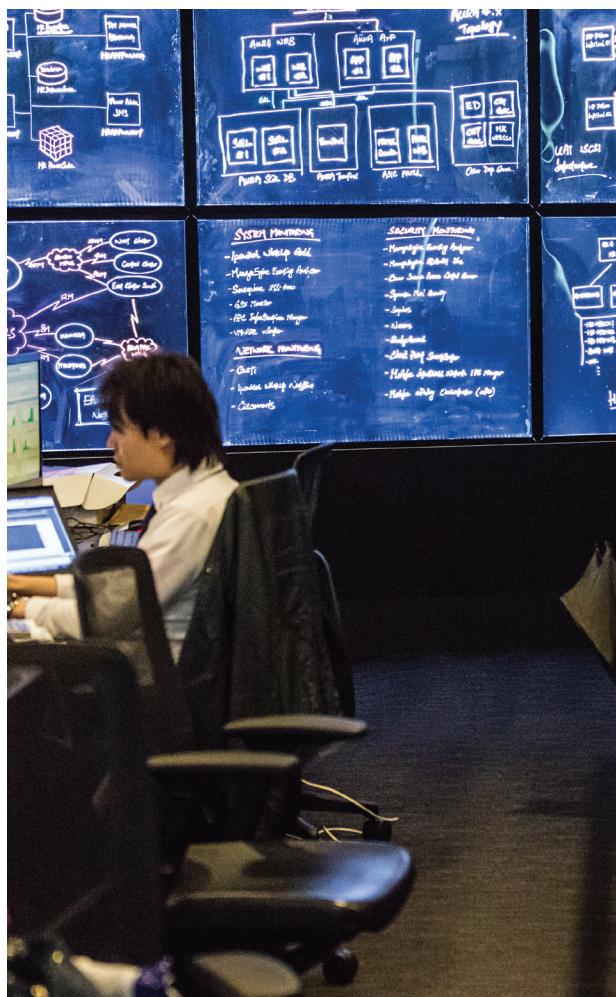
On that note, industry players continue to remain cautious of regulatory changes and developments which may bring about cost and risk implications.



## **Concluding thoughts**

The Banana Skins topping this year's list are correlated. Advances in digital technology not only redefine value propositions, but also give rise to new competition and expose businesses to increased cyber and digital risks. Unfettered by legacy issues and systems, new entrants have free rein to probe for openings to disrupt the most attractive parts of the value chain and market share.

As Singapore repositions itself for the next phase of growth – by becoming a digitally enabled economy – traditional insurance players have no doubt embarked on their digital journey to automate, and apply data analytics to better understand consumers and offer more targeted products despite massive legacy systems and traditional models hindering the transformation and slowing growth.



That being said, while incumbents have been investing in upgrading and/or adding layers of new systems to navigate disruption, the time has now come to consider the need to refresh and modernise their overall architecture, thereby removing legacy barriers, and better future-proof their business.

Status quo is not an option. Future survival and success is directly fueled by the ability to adapt to change, innovate, and attract the right talent through embracing technological advancement – in short, effective change management coupled with high quality of management.

## Appendices

### Appendix A: Singapore participant profile



There are 32 responses from Singapore, as follows:

Life: 11

Non-life: 13

Composite: 3

Reinsurance: 4

Other: 1

## Appendix B: Complete list of Insurance Banana Skins 2017

Insurance Banana Skins 2017			
World		Singapore	
1	Change management	1	Change management
2	Cyber risk	2	Technology
3	Technology	3	Quality of management
4	Interest rates	4	Competition
5	Investment performance	5	Cyber risk
6	Regulation	6	Human talent
7	Macro-economy	7	Macro-economy
8	Competition	8	Investment performance
9	Human talent	9	Interest rates
10	Guaranteed products	10	Quality of risk management
11	Political interference	11	Cost reduction
12	Business practices	12	Business practices
13	Cost reduction	13	Regulation
14	Quality of management	14	Guaranteed products
15	Quality of risk management	15	Capital availability
16	Social change	16	Reputation
17	Reputation	17	Social change
18	Product development	18	Corporate governance
19	Corporate governance	19	Product development
20	Capital availability	20	Political interference
21	Complex instruments	21	Complex instruments
22	Brexit	22	Brexit

## **Appendix C:** *Main points of difference (places higher or lower than the global ranking)*



Quality of management +11

Quality of risk management +6

Capital availability +5

Competition +4

Guaranteed products -4

Interest rates -5

Regulation -7

Political interference -9

## Appendix D: The Banana Skins Indices

Banana Skins Index		Preparedness Index	
Taiwan	3.66	Spain	3.56
India	3.61	Switzerland	3.36
Portugal	3.61	Sweden	3.36
Mexico	3.59	Brazil	3.29
Indonesia	3.58	Denmark	3.27
Thailand	3.57	Indonesia	3.26
Philippines	3.56	Thailand	3.22
Malaysia	3.52	Italy	3.20
Turkey	3.50	Malaysia	3.19
Greece	3.50	Colombia	3.18
Japan	3.45	Cayman Islands	3.18
Barbados	3.40	Austria	3.14
Luxembourg	3.40	Netherlands	3.13
Brazil	3.38	Belgium	3.12
Argentina	3.37	Bermuda	3.11
Italy	3.37	Barbados	3.09
Jamaica	3.36	Portugal	3.07
<b>Singapore</b>	<b>3.35</b>	Japan	3.03
Switzerland	3.33	<b>Global</b>	<b>3.02</b>
<b>Global</b>	<b>3.31</b>	Ireland	3.00
Australia	3.31	Luxembourg	3.00
Colombia	3.31	China	3.00
UK	3.26	Philippines	3.00
Canada	3.25	Mexico	3.00
Netherlands	3.25	Australia	2.98
Sweden	3.24	Taiwan	2.90
Spain	3.23	South Africa	2.90
USA	3.18	Greece	2.88
Cayman Islands	3.18	Canada	2.86
Ireland	3.17	New Zealand	2.86
China	3.16	India	2.86
New Zealand	3.14	USA	2.85
Austria	3.14	Czech Republic	2.80
Belgium	3.13	<b>Singapore</b>	<b>2.77</b>
Germany	3.13	Turkey	2.75
South Africa	3.11	Hong Kong	2.75
Denmark	3.10	UK	2.71
Bermuda	3.09	Germany	2.70
Hong Kong	3.04	Argentina	2.60
Czech Republic	2.95	Jamaica	2.50

## **Appendix E:** ***The questionnaire***

### ***Insurance Banana Skins 2017*** ***A CSFI survey***

Each year we ask senior insurers and close observers of the financial scene to describe their main concerns 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.

#### **Question 1**

Who you are:

- Name
- Position
- Institution
- Country
- Which part of the insurance market do you represent?
  - Broking/intermediary
  - Life
  - P&C/Non-life
  - Composite
  - Reinsurance
  - Other (please state)
- Are you willing to be quoted by name?

#### **Question 2**

Please describe what you see as the main risks facing the insurance industry over the next 2-3 years.

#### **Question 3**

Below are risks in the insurance industry that 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.

##### **Economic environment**

1. Macro-economy: To what extent does the current macro-economic environment present a threat to the insurance sector?
2. Interest rates: How large is the risk that insurers will be damaged by movements - or lack of movement - in interest rates?

##### **Public environment**

3. Political risk: How great is the risk that political pressures will damage insurers, e.g. through interference in business practices, pressure to underwrite particular risks etc.?
4. Brexit: How great is the risk that the UK's decision to leave the EU will harm the international insurance market?
5. Regulation: To what extent could the current wave of new regulation on capital requirements and conduct of business have damaging effects on insurers?
6. Reputation: How severe is the risk that the industry will be damaged by poor reputation or by social media?
7. 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.?

## Operating risk

8. Capital availability: To what extent is a shortage or surplus of capital currently a risk to insurance providers?
9. Investment performance: What is the risk that insurers will be harmed by poor investment performance?
10. Change management: How likely is it that insurers will be damaged by inadequate responses to change, e.g. in markets, customer demands, distribution channels?
11. Cost reduction: What is the risk that insurers will fail to achieve the necessary cost reductions to remain competitive?
12. Technology: What is the risk that the insurance industry will fail to manage its business and technology modernisation effectively?
13. Competition: What is the risk that the insurance industry will fail to meet the challenge from new competitors such as the InsurTech industry?
14. Product development: How likely is it that insurers will be harmed by a failure to develop the right products for their customers?
15. Complex instruments: What is the potential for insurers to suffer losses through their dealings in derivatives and other exotic products?
16. Guaranteed products: With the low interest rate environment persisting, how much risk is there to insurers' capital and solvency from guarantees in products?
17. Human talent: How likely is it that insurers will have difficulty attracting and retaining talent in the present environment?
18. Cyber risk: What is the risk of insurers becoming victims of cyber crime?



## Governance

19. Corporate governance: How likely is it that weakness at board level will lead to poor oversight and control of insurance companies?

20. Quality of management: How likely is it that insurance companies will be harmed by poor management?

21. Quality of risk management: How likely is it that insurers will incur losses as a result of inadequate risk management?

22. Business practices: How high is the risk that insurers will incur losses as a result of poor sales and other conduct of business practices?

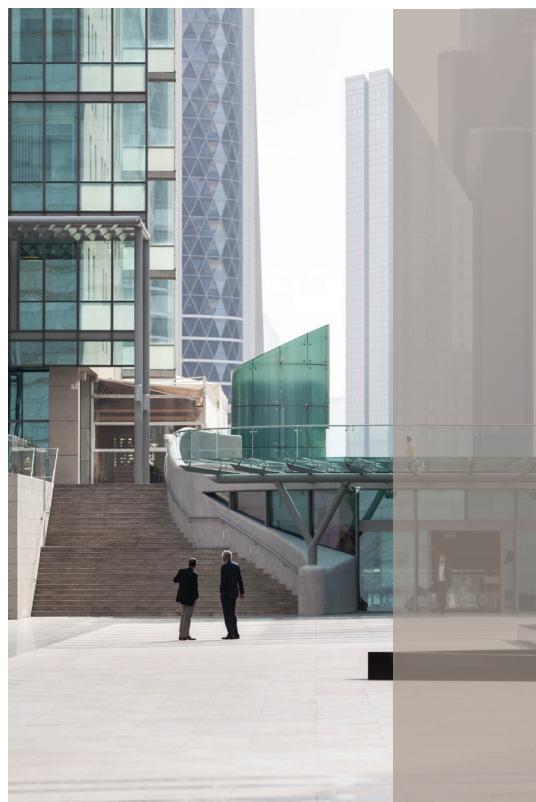


Please add other risks that you feel are significant to the insurance industry.

## Question 4

How well prepared do you think insurers are to handle the main risks you identified in this survey, where 1 = poorly and 5 = well? Please add comments if you wish.

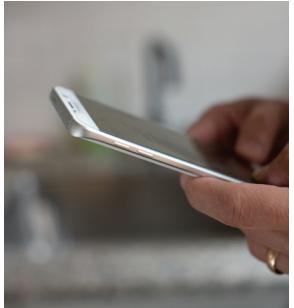
Thank you



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