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Cyber Risk and Interest Rates Rank alongside Regulation as Top Risks for Insurers. 'Banana Skins' poll reflects industry risk perception

A new survey charting the top risks in the global insurance sector shows that cyber risk and interest rates are now among the top risks for insurers. Their entry, new into the rankings of this fifth successive survey, are indicative of how high a concern they have become for the industry when looked at in conjunction with regulatory developments and the broader macro-economy.

The CSFI's latest '**Insurance Banana Skins 2015**' survey, conducted in association with PwC, polled over 800 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 as the overall top risk for participants in the survey for the third successive time, underlining the deep impact regulatory change is having.

The report says that new rules governing solvency and market conduct could swamp the industry with costs and compliance problems. It could also distract management from the task of running healthy businesses at a time when the industry faces radical structural change.

The EU's Solvency 2 Directive, to be introduced next year, was the focus of strongest concern, but many other countries are introducing similar measures, often modelled on Solvency 2. While the beneficial impact of tighter regulation was acknowledged, the survey responses showed regulation is also widely seen as excessive and overbearing.

This view was held both by practitioners and outside observers of the industry (academics, consultants, analysts etc.) Typical responses from insurance company directors included: *"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."*

A second cluster of concerns surrounds macro-economic risk, where respondents were cautious about the outlook for growth, as well as for interest rates whose low levels have depressed investment yields and made savings products more difficult to manage and sell.

Insurance Banana Skins 2015 – world (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)

A third cluster of risks is emerging in the area of industry change, particularly the impact of new technology on security, product delivery and data management. Cyber risk appears for the first time since the survey was initiated in 2007, and is highly placed at No. 4 overall (no.1 for non-life insurance), reflecting rapidly growing concern about cyber crime and data security.

The digitisation of the industry also threatens traditional business models in the areas of distribution, new entrants and client interface. Many respondents expect to see major structural change in the industry in the coming years.

A number of risks have receded, among them the quality of management and corporate governance in insurance companies, where marked improvements are seen to have taken place. These were once ranked among the top risks facing the industry. Also declining is reputation risk as insurers become more pro-active in public relations, though the growth of social media is seen as a rising threat to reputation management.

The 2015 **Banana Skins Index**, which measures the level of anxiety in the industry, is at a record high despite the improving global situation. David Lascelles, survey editor, said: *"The insurance industry faces enormous challenges in the growth of regulation, a difficult operating environment, and the looming threat of structural change. This is reflected in the negative sentiment behind this survey".*

Stephen O'Hearn, PwC Global Insurance Leader, commented: *"The long-term prospects for insurers are positive as people around the world live longer and have more wealth to protect. Yet they also face the disruptive impact of new technology, changing customer expectations, more exacting regulation and enduring economic uncertainty. Insurers' ability to identify and manage emerging as well as familiar risks will be one of the key differentiators for success in this volatile competitive environment."*

Mark Train, PwC Global Insurance Risk leader, said: *"We're pleased to support the CSFI's Insurance Banana Skins initiative, which provides valuable insights into the risk concerns at the top of the boardroom agenda. The ability to identify and manage emerging as well as familiar risks will be one of the key differentiators for success in a marketplace that offers considerable long-term opportunities, but also disruptive threats."*

The response from the CEE region

Insurance Banana Skins 2015 – CEE

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

Eva Hupková, Insurance sector leader at PwC Slovakia, comments on the 2nd greatest risk in CEE, the interest rates: *"The low interest rate environment that we face in the eurozone helps the banking sector and governments by keeping the interest costs under control. It probably also has a positive overall effect on the economy as aggregate demand is likely stronger thanks to the low costs of borrowing and available liquidity. The risks are though that life insurers will struggle to meet their promises to policy holders in the long term if the interest rates stay for the next several years where they are right now and the whole situation may be dragging the sector's results down in the medium term."*

Notable differences between the CEE and the global response:

Higher concerns:
Climate change
Corporate governance
Business practices

Lower concerns:
Regulation
Change management
Human talent
Political interference

END

Notes to Editors:

1. For further information, contact
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2. The **Insurance Banana Skins 2015** survey was conducted in March and April 2015 and is based on 806 responses from 54 countries. The breakdown by type of respondent was:

	%
Non-life	34
Life insurance	27
Reinsurance	6
Brokers	5
Observers	28

There were 34 responses from CEE countries, as follows

Czech Rep.	10
Slovakia	6
Latvia	6
Hungary	5
Croatia	4
Poland	2
Russia	1

The breakdown by type was as follows:

Broking	1
Life	6
Non-life	14
Reinsurance	0
Observers	13

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 2011 and 2013. It can be downloaded from PwC's website: www.pwc.com/fs

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 157 countries with more than 195,000 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/sk.