

# Insurance Banana Skins 2021



**The CSFI survey of the  
risks facing insurers**

In association  
with

**pwc**



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Centre for the Study of  
Financial Innovation

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## Preface

This is the eighth survey of the risks facing the global insurance sector that we have carried out – all with the financial and logistical support of PwC, for which we are grateful. We are also grateful that PwC lets us exert full editorial control; the conclusions (and mistakes, if there are any) are ours alone.

Unsurprisingly, this is the first such survey since the Covid pandemic broke, and its conclusions are inevitably coloured by the crisis. However, what is particularly striking is that the insurance industry as a whole appears to have moved ahead. Its concerns are more to do with the future than with the past. They include, in particular, the perceived vulnerability of the industry to crime, notably cybercrime, and a fear that over-regulation will damage future prospects. Neither of those is a surprise; we hear every day of internet-enabled scams of one sort or another ('ransomware' being a particular concern at the present), and there has never been an insurer (or a banker) who hasn't blamed the dead hand of regulation for killing business – even if, in his or her heart-of-hearts, the need for pretty intrusive regulation is accepted.

Inevitably, climate change figures high on the list of concerns this year. Potentially, it poses an existential threat to the industry, but it must also offer real business opportunities. In our next edition, we will almost certainly have to disaggregate it to assess its real impact. What certainly impressed me this time is the low weighting that the industry as a whole gives to the cluster of risks around corporate governance, conduct of business and management; let's hope they are right. This hasn't always been the best-run industry, but maybe it really has learned its lesson.

As always, thanks to my colleagues, David Lascelles and Keyur Patel for the enormous amount of work that they put into these surveys. And, once again, thanks to our friends at PwC for their support – and for spreading the net so that we can genuinely say that is a global study.

**Andrew Hilton**

Director

Centre for the Study of Financial Innovation

This report was written by David Lascelles and Keyur Patel

## Sponsor's foreword

Welcome to Insurance Banana Skins 2021

We are once again delighted to sponsor this market-leading publication detailing the risks facing the insurance sector across the globe in the next 2-3 years. We continue to work with the CSFI on this excellent survey, which began in 2007 and is now on its 8th edition.

When I wrote the foreword to the previous edition, I said that “a lot has changed in this time” but even the most prescient of risk experts might not have predicted the events of 2020. The past 2 years have been hugely challenging for people, societies and companies across the world. Whilst some countries are beginning to operate in something like normal conditions, there are many places around the globe where the pandemic is still rife. Our thoughts go out to everyone who has faced, or continues to face, difficult circumstances at such an unprecedented time.

The insurance industry has had a significant involvement in responding to the impacts of the pandemic with business interruption and contingency policies paying out huge volumes of claims. There has also been criticism at times over coverage issues and resultant legal cases around the world. These matters are all commented on by the respondents in the survey, but overall reputational risk has stayed fairly consistent in the past year.

The survey results are obviously impacted by the pandemic. The three themes below are all connected and have been amplified by it, but overall the industry has been incredibly resilient – both in human and capital terms – and this is borne out in the respondents' increasingly positive view of our industry's preparedness to respond to the risks it faces. It is noteworthy that Pandemic did not feature at all in our last report and a testament to the industry's resilience that it is not seen as a significant banana skin in this report either.

### **An increasing threat of Crime and Technology**

Crime and particularly cyber crime sits top of the risks considered by insurers for the first time in our survey. A high ranking risk for a number of years, the increase in virtual working and the increase in the type, volume and success of cyber threats have 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.

As businesses have introduced new technology, cloud computing and third-party services in longer supply chains, the challenge for insurers has become more complex than ever. The risk from technology, whilst high, has fallen slightly from the prior report. Linking these 2 risks, it would seem that whilst the industry is becoming more confident in implementing new digital solutions, as companies increase the accessibility and usability of technology (particularly remotely), the more they are exposed to cyber risk. This challenge only looks set to continue.

### **The impact of Climate Change**

This is the fastest rising risk in the survey and moves into the top 5 for the first time. It is clear that the impact of climate change is a much nearer-term risk than previously perceived and in many cases, the effects are already being

felt. The worldwide focus on climate change as part of the wider ESG agenda is resulting in a step-change for most insurers. 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. It would be no surprise to see this risk rise further in future reports.

### **The end of record low Interest Rates?**

As the world begins its recovery from Covid, the impact on economies will be critical in understanding the speed and shape of that recovery. There was a clear view that interest rate risk is higher for the industry than previously, but with a difference in the views between life insurers and others. Life insurers look at the potential benefits of higher yields, with non-life insurers and reinsurers more concerned about the inflationary impacts that might lead to changes in interest rates.

Yet again, we are indebted to our global PwC network of clients for taking the time to participate in this initiative – we are also indebted to the CSFI for their perceptive analysis – thank you.

For further conversations on any of the issues raised, please do not hesitate to contact us.

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## About this survey

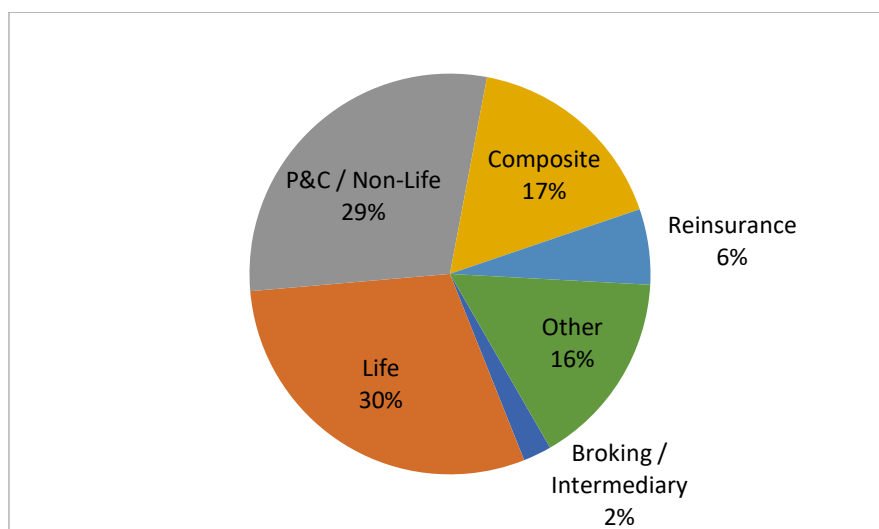
*Insurance Banana Skins 2021* surveys the risks facing the insurance industry in the second half of 2021, and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

The report, which updates previous surveys going back to 2007, was conducted from June-September 2021, and is based on 607 responses from 47 territories.

The questionnaire (reproduced in the Appendix) was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the insurance sector 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.

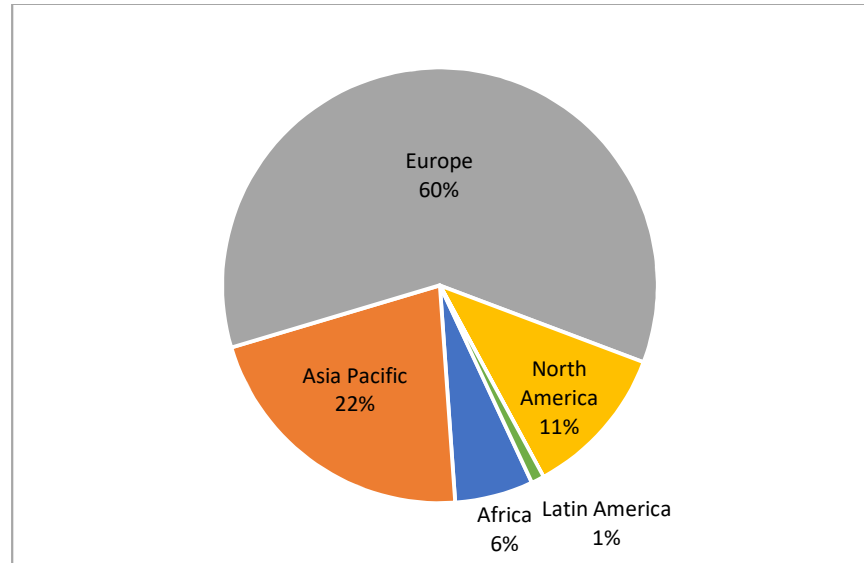
The breakdown of responses by sector was:



Three-quarters of the respondents were from the primary insurance industry<sup>1</sup>. The remainder were from the reinsurance and broking sectors, and non-practitioners such as regulators, consultants, analysts and other professional service providers.

<sup>1</sup> I.e., the life and non-life sectors, or a composite. In this report we sometimes use the term non-life to describe what some markets call the Property & Casualty (P&C) sector.

The breakdown of responses by region was:



The majority of respondents came from Europe, with the Asia Pacific region and North America contributing another third. There were also responses from Africa and Latin America.

The breakdown of responses by territory was:

Argentina	1	France	3	Nordic	1
Australia	27	Germany	33	Philippines	2
Austria	26	Greece	3	Portugal	4
Barbados	1	Hong Kong	8	Singapore	37
Belgium	15	India	2	South Africa	38
Benelux	1	Indonesia	15	South Korea	5
Bermuda	30	Ireland	4	Spain	27
Brazil	3	Italy	17	Sweden	1
Canada	41	Japan	20	Switzerland	3
Cayman Islands	2	Liechtenstein	1	Taiwan	19
China	1	Luxembourg	33	Thailand	1
Colombia	1	Malaysia	5	UAE	1
Czech Republic	3	Malta	1	Uganda	5
Denmark	27	Mexico	2	UK	91
Dominican Republic	1	Netherlands	19	USA	9
European Union	3	New Zealand	16		

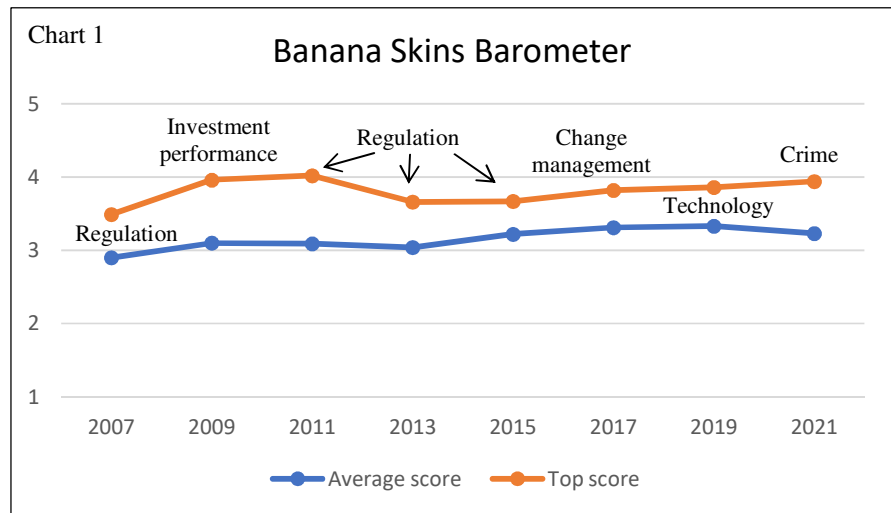
## Summary

This survey describes the most urgent risks, or "Banana Skins", facing the global insurance industry in the latter half of 2021 as seen by a sample of 607 practitioners and close observers in 47 territories. It is the latest in a series going back to 2007.

Surprisingly perhaps, the overall tone of the responses this year is slightly more positive than in the last survey we carried out just before Covid in 2019. Although this year's responses expressed concern about the impact of Covid and other challenges facing insurance companies, they were balanced by a more upbeat view of the economic outlook and the industry's ability to manage change.

The sector's fluctuating mood over time is seen in the Banana Skins Barometer, where the blue line shows the average score given by respondents to the basket of risks in the survey, and the red line shows the risk which received the highest score.

**Cybercrime is now the top risk**



Respondents were asked to score each of 23 topical risks from 1 to 5, where 5 is the most severe. This chart shows the average score of the top-rated risk in each edition of Insurance Banana Skins, and the average score of all the risks.

	2021	2019	+/-
Operating risks	3.15	3.46	-0.31
Economic environment	3.19	3.30	-0.11
Governance	2.69	3.12	-0.31
Public environment	3.25	3.20	+0.05
Post-Covid	2.96	N/A	N/A

\*The components of each category are listed in the survey questionnaire in the Appendix.

The possible reasons for the improvement in mood this year are shown in Chart 2. Of the areas of risk covered by the survey, only the public environment receives a higher score than in 2019, mainly because of rising regulation. Three areas show a fall: the economic environment, operating risk and governance. We also had a new category of 'Post-Covid' risks this year, which scores lower than the average.



## Climate change risk is rising fast

Chart 3 shows the ranking of individual risks. **Crime**, particularly cybercrime, is this year's No. 1. Although criminality has been a rising feature for several years, this is the first time it has come out top. The rise reflects strong concern about the vulnerability of insurers' systems to cybercriminal attack, and the costs of underwriting attacks against policyholders.

**Regulatory risk** occupies second place, reflecting the view that regulation has become excessive and, increasingly, an impediment to sound business. Although the level of concern varied geographically, it featured in all the regions we surveyed.

At No. 4, the risk from **climate change** is the biggest riser by score in this survey. Particularly due to a rise in catastrophic events, it is now seen as an immediate threat to insurers rather than a longer-term one. Again, this rise was common to all the regions we surveyed.

As in recent surveys, the risks around the industry's **technological modernisation** rank high. The focus of concern is on the ability of the insurance industry to stay at the forefront of change, and on the operational risks in managing the transition to digitised services. However, technology risk fell from No.1 in the previous survey to No.3 this year, which may be explained by greater confidence in the industry's ability to adapt.

The associated risk of **change management** also fell, from No. 3 to No. 7. However, a rising concern was the availability of **human talent**, up from No. 8 to No. 6, much needed as the industry undergoes its expected technological transformation in the face of strong **competition** (No. 8) from new entrants.

The chief feature of concern on the economic front was the outlook for **interest rates** (up five places to No. 5), though there was no clear consensus over the direction they were likely to take, or of whether change would be good or bad for the industry. The overall **macro-economic outlook** was a lesser concern at No.10, with many respondents expressing confidence about a recovery.

Among Covid-related risks were **security** at No. 13 reflecting concerns about the growth of working from home and the associated security risks, and **pricing of insurance** cover at No. 15 in the wake of disputed claims arising from the pandemic.

Chart 3

### Insurance Banana Skins 2021 (2019 ranking in brackets)

- 1 Crime (2)
- 2 Regulation (4)
- 3 Technology (1)
- 4 Climate change (6)
- 5 Interest rates (10)
- 6 Human talent (8)
- 7 Change management (3)
- 8 Competition (7)
- 9 Investment performance (5)
- 10 Macro-economy (9)
- 11 Political risk (11)
- 12 Cost reduction (12)
- 13 Security risk (-)
- 14 Reputation (13)
- 15 Pricing (-)
- 16 Social change (18)
- 17 Products (-)
- 18 Business model (-)
- 19 Capital availability (20)
- 20 Credit risk (17)
- 21 Quality of management (16)
- 22 Business conduct (15)
- 23 Corporate governance (19)

## Human talent could be in short supply

Striking was the low position occupied by a cluster of risks related to the governance of insurers: **business model** (No. 18), **quality of management** (21), **business conduct** (22) and **corporate governance** (23). Respondents said that much had been done by insurers and their regulators to improve performance in these areas.

### Big movers

This year's survey has produced striking changes in the ranking of some Banana Skins, highlighting shifting perceptions of risk. Here are some of the big movers.

#### UP

**Crime.** Cybercrime becomes the industry's top concern

**Climate change.** Continues its climb up the ranking

**Interest rates.** Highly uncertain outlook.

**Human talent.** Much in need to manage the industry's transformation.

#### DOWN

**Change management.** The industry feels up to the challenges it faces

**Investment performance.** Much has been done to reduce dependence on financial markets.

**Quality of management.** Improved in recent years

**Business conduct.** Under tighter control.

**Corporate governance.** Stronger and more capable.

### Response by type of respondent...

Although the risks identified by individual sectors of the insurance industry showed a strong similarity, there were differences in ranking. **Crime** was the prime concern of the non-life, composite and intermediary sectors, while the life and reinsurance sectors put **regulation** in first place. The ability to **manage change** was also seen as an important risk across the industry. The life insurance industry ranked **interest rate** risk and **investment performance** higher than other sectors, but was less concerned about **macro-economic risk**. **Climate change** and **technology risk** ranked high in all sectors.

### ...and by geography

Most of the risks identified by the survey had a global character: the responses by region were broadly similar, with some differences in the ranking. **Crime** was the top risk for Europe and North America, followed by **regulatory risk**. The Asia and Pacific region put **regulatory risk** in first place, followed by **technology**. **Climate change** was ranked as a strongly rising risk across the three regions. The growth of **competition** and the challenge of **technology** ranked high in all regions, as did the availability of **human talent**. On the economic front, all regions expressed concern about the prospects for **interest rates**, but only the Asia Pacific ranked the **macro-economic outlook** among its top ten risks.

### Preparedness

Respondents were asked how well prepared they thought the insurance industry was to handle the risks they identified. On a scale of 1 (poorly) to 5 (well) they gave an average response of 3.22, an uptick from the previous survey's 3.11, suggesting greater confidence in the industry's ability to weather a difficult business environment.

## The impact of Covid is relatively slight

### The Covid impact

Although Covid featured strongly in the responses, it was not expected to have a profound or lasting impact on the insurance industry. In fact it scored below average in our category of risks.

Covid was most frequently mentioned as an operating risk as staff took to working from home, where security could be a greater issue, though many respondents said that robust procedures had been installed to reduce this risk. But if home working becomes the norm, there would be less face-to-face contact with clients which some respondents feared would lead to worse service and less access to advice.

Covid also came up as an underwriting risk in the wake of disputed claims for business interruption and medical care, and as an issue for pricing and wording of contracts. There was further concern that Covid could produce political and regulatory pressure to settle borderline claims, on the other hand it may boost demand for pandemic-related insurance products.

Len Elikhis, Chief Officer Product and Vitality, AIA, New Zealand, said: "Covid remains an ongoing risk. There is significant uncertainty around the impact on claims, particularly disability claims from a long Covid. There is also uncertainty around the pace at which nations re-open and the impact of these decisions on the economy and the ability to source talent in a tight labour market impacted by border closures".

Overall, the insurance response contrasted strongly with our parallel survey of the banking industry, where Covid was expected to have a profound impact by accelerating the use of cashless payment and other financing practices which could bypass the established banking system altogether.

## Who said what

A breakdown of the results by respondent type and region shows a strong common concern with the impact of technological change and the industry's ability to manage it against a background of rising cyber risk, climate change, and economic uncertainty.

### By sector

#### Life Insurance

- 1 Regulation
- 2 Interest rates
- 3 Technology
- 4 Crime
- 5 Investment performance
- 6 Change management
- 7 Macro-economy
- 8 Human talent
- 9 Competition
- 10 Climate change

The growth in regulation - with more to come - headed the list of risks in the life sector. Specific life side concerns included the low level of interest rates and the performance of investments where the outlook is distinctly uncertain. Adaptation risks in a changing industry also featured in the high scores given to technology and change management, as did the industry-wide concern about crime. Concern about the macro-economic outlook, at No. 7, was the highest among the sectors. The impact of Covid on morbidity and mortality were further concerns.

#### Non-life

- 1 Climate change
- 2 Crime
- 3 Technology
- 4 Regulation
- 5 Human talent
- 6 Change management
- 7 Competition
- 8 Political risk
- 9 Cost reduction
- 10 Reputation

The rise in catastrophe risk in climate change dominated concerns on the non-life side, along with the growth in cybercrime. The sector also featured the risks in a changing industry: technology, change management and competition. The growth in regulation was another high concern. The non-life side showed less concern about economic risk, with neither the macroeconomy nor interest rates among the Top 10 Banana Skins. Covid-related concerns included business interruption and changing working habits

#### Reinsurance

- 1 Climate change
- 2 Regulation
- 3 Crime
- 4 Technology
- 5 Human talent
- 6 Capital availability
- 7 Interest rates
- 8 Political risk
- 9 Investment performance
- 10 Change management

The reinsurance sector's main feature was the top-place ranking given to climate change - particularly catastrophe risk. Regulation was next on the list, and the risk posed by cybercrime came 3rd. The industry's ability to attract and retain talent featured higher than average, as did political risk, essentially an offshoot of regulatory risk. Macro-economic risk did not make it to the Top Ten, but the outlook for interest rates came No. 7.

## Composite

1	Crime	<p>Responses from the composite sector reflected those of the non-life side more than those of the life side, with a strong focus on cybercrime and the growing risks posed by climate change. The rankings of interest rate risk and investment reflected the concerns of the life side. As with other sectors, the size of the regulatory agenda was a strong concern for the composites. The theme of the declining social relevance of insurance featured in a number of responses.</p>
2	Regulation	
3	Interest rates	
4	Climate change	
5	Technology	
6	Human talent	
7	Change management	
8	Investment performance	
9	Macro-economy	
10	Competition	

## By region

### Europe

- 1 Regulation
- 2 Crime
- 3 Climate change
- 4 Interest rates
- 5 Technology
- 6 Change management
- 7 Human talent
- 8 Investment performance
- 9 Competition
- 10 Cost reduction

The growth in regulation topped the European list of concerns, as insurance companies anticipated a further wave of rules, but the worldwide preoccupation with cybercrime was a close second. Concern about climate change has risen strongly, from 7th place last time to 3rd. The need to meet new competitive and technological challenges in difficult markets – without the necessary human talent – covered a broad area of risk. The macro-economic outlook was a lesser concern, though interest rate risk featured high.

### Asia Pacific

- 1 Technology
- 2 Crime
- 3 Regulation
- 4 Climate change
- 5 Change management
- 6 Human talent
- 7 Competition
- 8 Interest rates
- 9 Investment performance
- 10 Macro-economy

The risk of insurers failing to keep up with technological change was by some distance the top concern in the Asia Pacific region, followed by cybercrime. As in the overall survey, regulation and climate change both featured highly. As with other regions, the broad area of managing change to meet new challenges encompassed a number of risks such as technology and the availability of human talent. This was the only region where concern about the macro-economic outlook made the Top Ten.

### North America

- 1 Crime
- 2 Technology
- 3 Climate change
- 4 Regulation
- 5 Human talent
- 6 Interest rates
- 7 Competition
- 8 Change management
- 9 Political risk
- 10 Cost reduction

The North American response was dominated by concerns about technology – both cybercrime and the industry's ability to keep pace with technological change. Concern about climate change has also risen. The need to adapt to fast-changing markets and new competition was expected to give rise to a number of risks in areas such as technology management, and the availability of human talent. On the economic front, the outlook for interest rates was a concern, but the state of the macro-economy was not a Top Ten risk.

## Preparedness

We asked respondents how well prepared they thought the industry was to handle the risks they identified.

On a scale of 1 (poorly) to 5 (well), they gave an average response of 3.22, an increase from 3.11 last time.

<b>By region</b>		<b>By sector</b>	
North America	3.30	Reinsurance	3.32
Europe	3.24	Composite	3.31
Asia Pacific	3.13	P&C / Non-life	3.20
Africa	3.10	Life	3.19

### Views on preparedness:

**Singapore, reinsurance (2/5):** The insurance industry as a whole still has a poor image. Technology gives it an opportunity to change but legacy issues, particularly in L&H [life and health] can get in the way.

**South Africa, regulator (2/5):** For some of the major risks like climate and cyber I do believe insurers are poorly prepared due to data shortages, inability to aggregate events and impact of second order effects.

**Canada, P&C (3/5):** I believe we are well positioned with knowledge and the financial ability to address these risks. Whether we are well prepared to make the necessary investments and decisions is yet to be determined.

**UK, P&C (3/5):** That varies by entity. Ultimately the larger companies are well organised and have, albeit slowly, started to respond to many challenges. The smaller entities vary in their responses and are those most likely to fail.

**Denmark, life (3/5):** As always, the industry does a lot of preparation for potential risks, but inevitably, the risks that do hit us the hardest are the ones we either overlook or cannot prepare for.

**Nordic, Broker, composite (4/5):** The current P&C market is much more controlled and less gung-ho than 15 years ago. It is now a business driven by data only.

**South Africa, Life (4/5):** Generally insurers are well placed to manage risk, but the quantum of changes post COVID and with changes in technology may overwhelm insurers.



## 1. Crime (2019 ranking: 2)

2021 score: 3.92 (2019 score: 3.85)

The risk to insurers from criminal activity – specifically, cybercrime – is the greatest threat facing the global insurance industry over the next 2-3 years, according to this survey’s respondents.

This risk tops the table for the first time, after ranking No. 2 in both 2017 and 2019. Its position reflects serious concerns both about the ability of cybercriminals to attack insurers’ technology systems directly, and the potential costs of underwriting attacks against policyholders.

Respondents warned about the growing number of incidents and their potential severity.

“Cyber-attacks are becoming more and more frequent and prominent and have the ability to affect everything from privacy to systems. These attacks also involve very sophisticated players including (allegedly) state sponsored actors”, said a respondent from the reinsurance industry in Canada. The chief executive of a P&C insurer in Canada said: “Our industry has seen a spike in activity and interruptions of service in recent months. Our systems and security approaches need to be hardened with an understanding that we are now primary targets”.

Cyber-attacks from ransomware gangs and hostile states are increasing exponentially. The ramifications of an attack often go beyond the original intention. **Karina Robinson, CEO, Robinson Hambro Ltd, UK**

These attacks are seen to be more serious because of the insurance industry’s growing dependence on its IT infrastructure: data, cloud, and third-party technology services.

A respondent in the UK said: “Tech is so interconnected and chain reactions are increasingly probable causing multiple disruption”. An actuary in New Zealand, warned of “reduced resilience of business continuity after cyber attacks, because greater automation to compete on costs means smaller headcount as a backup for manual processing”.

The Covid pandemic may also increase the industry’s vulnerability to hacking and other attacks (see Security risk, No. 13). The president of a P&C insurer in Indonesia said that “the pace of online and digital development in the Covid pandemic was possibly too fast, without proper risk management and security controls”.

Concerns about insurers’ ability to underwrite cyber risk are high in part because these events are difficult to model. One worry is that insurers are underestimating the potential costs of cybercrime when writing policies. “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.

Another is that insurers and their clients may have different expectations of what policies cover – exposing insurers with ambiguous policy wording to litigation or reputational damage. The CFO of a broker in the Nordic region said: “A massive

**Crime is both an operating and an underwriting risk**



global cyber event is the nightmare for a number of carriers, not least the large reinsurers.”

A chief risk officer at a UK P&C insurer said that, in the event of a coordinated attack on a key market institution, the following could all occur simultaneously:

**Insurance claims**

\* Cyber clause/cyber contract losses \* Property losses/Business Interruption  
\* D&O losses \* Financial crime losses

**Financial market chaos**

\* Underlying market institutions failing \* Data records corrupted/stolen \* High volatility in assets

**Operational issues**

\* Loss/corruption of own data \* Loss of reputation \* Credit losses \* Failure of reinsurers and other counterparties.



## 2. Regulation (4)

Score: 3.80 (3.62)

Concern about the level of regulation is rising, driven by the implementation of broad measures such as Solvency 2 and IFRS 17, and by what the industry sees as a more consumerist approach taken by regulators.

### Over-regulation is a big worry

The chief risk officer of a Dutch life company said: “Society and therefore also political and regulatory bodies are increasingly wondering 'who is responsible', 'who is to blame'? Therefore everybody is safeguarding his own responsibility, which leads to less tolerance and greater risk aversion, which in turn increases rules and rule-based supervision.”

Specific concerns included the sheer volume of regulation, and the accompanying cost and compliance burdens which many respondents felt were hampering product innovation and competition. The chief risk officer of a South African insurer said: “Increased regulation, both in volume and intrusiveness, can stifle market innovation and value creation and add to the existing cost burden.”

**‘Lost its way’**

[The regulatory system] needs to be overhauled, not just keep adding more. It is busy, expensive work that feels like it has lost its way. The expense burden of regulation is beginning to outweigh critical customer service functions in the business, so it results in limiting investment in innovation & customer experience due to funds being absorbed through regulatory & compliance team costs.

**Chief financial officer, UK**

A consultant in the UK said that: “Regulation is always a problem. It is needed to ensure that there is adequate protection yet it increases costs for all parties. As regulation increases, solutions avoiding regulation tend to abound. That is rarely in the interests of the consumer.”

Some respondents also saw the regulatory regime becoming more rule-based and less tolerant. From Luxembourg, a head of internal audit in the life industry said: “I

do not think that there is a risk of excessive regulation, but of a tighter monitoring of its implementation. Regulators are becoming stricter and stricter.”

Those respondents who did not see regulation as an important risk said that the burden had changed little and was unlikely to rise. Some favoured greater protection for the consumer. An insurance consultant in Australia said: “Core regulation is unlikely to go away any time soon, so the bigger risk is for companies who do not find ways to embed regulatory requirements efficiently into their ways of working.”

Responses varied by locality. Here is a selection:

**South Africa:** My worry is that the trust relationship between regulators and the industry is not what it used to be. In the interest of insurance clients, there should be much more open communication and a constructive relationship. That has largely disappeared after 2008. **Izak Smit, CEO, PPS**

**Denmark:** We are quite good at addressing issues when we focus on them. The risk is that regulation and internal controls and governance slows us down.

**Japan:** We believe that the risk is low in Japan, but there is a certain amount of risk overseas (especially in emerging countries and China)

**UK:** There is a joke that insurance companies are companies that comply with regulation, and if they have time left over from doing that, they may write some insurance. That joke isn't funny anymore.



## 3 Technology (1)

Score: 3.77 (3.86)

Though it has dropped from the top position in this survey's 2019 edition, the risk that insurers will fail to keep up with technological change is high.

Respondents warned that lagging insurers will fail to cut costs to compete with more tech-savvy peers. Peter Hermann, CEO of TopDanmark in Denmark, said it is: “likely that increased use of technology will drive even more improvement in underwriting results, and we already see that the ability for technology to lower expense ratios is enormous. Those that lag too far behind will struggle.” Another widespread concern is whether insurers are able to serve the needs of a new generation of customers through the modern distribution channels that they are increasingly accustomed to using.

The industry's attempts to modernise are seen to have created a “two tier market”: one consisting of the more traditional insurance incumbents, the other Insuretech upstarts. Many incumbents have been hampered by old, outdated, and overly customised IT systems, as well as conservative leadership. “Any business with legacy technology has a millstone round its neck”, said a governance advisor in the UK.

The cost of tech modernisation is a major concern. “Balancing long term investment in upgrading systems versus short term earnings is an ongoing challenge -

## The challenge of new technology

exacerbated when claims are high (volatility of material events) and investment returns (interest rates) are low”, said a non-executive director at an Australian insurer.

But cost is not the only issue: many respondents saw difficulties in adapting existing business processes – and the people that run them - to new IT systems without excessive disruption. The head of sustainability at an insurer in Austria said: “Seamless business integration of new technologies is underestimated in terms of delays and flexibility...Adaption needs in data models, tools and processes are likely to challenge organizations.”

I don't fear the emergence of Fintech companies as much as some executives do, but I do fear the change management and operational risks attached to numerous large companies attempting to migrate from legacy IT environments into modern digitally-enabled companies.

**Risto Ketola, chief financial officer, Momentum Metropolitan, South Africa**

On the other hand, Insuretech companies were generally seen as nimble and responsive to technological change. The risk is that Insuretechs may move too fast, and without proper safeguards. Some respondents also argued that Insuretechs are unfairly less regulated than traditional insurers, putting them at an advantage to incumbents and possibly incentivising risky behaviour.

## The rising cost of weather insurance



### 4. Climate change (6)

Score: 3.72 (3.45)

The risk to insurers from climate change is seen as growing and urgent. By score, it is the fastest rising Banana Skin in this year’s survey, and it was ranked top of the table in the non-life sector. More broadly, many respondents commented that beyond the next 2-3 years, climate change is the greatest threat of all to the industry.

However, much more than in previous years’ surveys, respondents emphasized that the effects of global warming are being felt by insurers right now. The chair of a P&C insurer in Australia said that climate change is “An existential challenge [to the industry] – both today and over the next 30 years” An underwriter in the UK said: “Climate change is already having an impact. In areas prone to catastrophic weather, premiums are rising and deductibles increasing”.

The frequency and severity of natural disasters, shifting of weather patterns, and prevalence of new or unmodelled perils due to climate change could have a short-term impact. **Chief actuary, P&C insurer, Canada**

Many responses focused on the underwriting risks posed by more frequent and extreme weather events, particularly due to the lack of historical precedent.

Kush Padia, chief financial officer at FirstRand Short-Term Insurance Limited in South Africa, said: “The rate of climate change is accelerating and influencing weather patterns globally. Previous weather cycles are becoming less accurate, and relevant, when forecasting for expected catastrophes... [This] may see reinsurance pricing increase over the coming years, which will ultimately impact premiums and cover afforded to policyholders”.

## Which way monetary policy?

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”.

Beyond the rise in natural catastrophes, a grave concern was that the wider implications of climate change are difficult or impossible to predict. Listing climate change as the main risk insurers face over the next 2-3 years, Anna Petropoulos, chief executive of Apetrop USA, said: “We have no idea of the economic implications a deteriorating environment will cause; we literally do not know ‘which bits will go wrong first’, so we cannot extrapolate the economic implications at all. Unpredictability is an anathema to the industry”.

Dimitri Terryn, director of Quantitative Risk Management at Ageas in Belgium, warned about “non-linear acceleration of climate change, where a sudden shift in recent climate change trends serves as an exogenous shock to the global insurance market”.

Some respondents made the point that while all financial services are vulnerable to the effects of climate change, insurers are especially exposed – and the industry is, by and large, very conscious of this. However, an underwriter at a P&C insurer in the UK said: “Although there is much discussion about how to address climate change, I’m not sure there is anything tangible that is being designed to date in the industry to either quantify, amend or produce viable alternative products.”

Our industry is at the forefront of climate challenges which will set our organisations on a trajectory for decades to come. This is the moment for our industry to have courage to lead transition and mitigation for our customers and future customers. **Ming Long, non-executive director, QBE (Auspac), Australia**

Climate risk was ranked lower by the life side of the industry (No. 10) than P&C (No.1) and reinsurance (No. 2). That is, however, a striking jump from its No. 19 ranking by life insurers in 2019. The chief compliance officer of a life insurance company in Hong Kong said: “This is a slow burn risk for Life but will start to impact investment portfolios as investor pressure builds”. An actuary in the reinsurance industry said: “The risk to general insurers is clear, but life insurers are not immune to these risks either: 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.”



## 5. Interest rates (10)

Score: 3.52 (3.36)

Concern about interest rates has risen sharply, but not because of a clear consensus in the sector about their likely direction. The breadth of considerations reflected different perspectives in the industry, with the life side welcoming a return to higher yields and the P&C side wary about the market impact.

Echoing many responses, the chief risk officer of a Dutch life company said that interest rates would remain low with the consequence that “asset prices in general remain inflated, so [there is] a severe risk of loss in market value and poor

investment returns.” Insurers with guaranteed return products on their books were especially vulnerable.

However, the CFO of a South African P&C insurer said: “the next move is up which will benefit insurance results following the decline in rates in 2020.” Other life insurers expressed similar views.

The sources of concern were also very varied. One was inflation which many respondents considered would lead to tighter monetary policies and pressure on profits. Another was the impact of higher rates on capital requirements. A UK respondent said that the transition to higher interest rates would be “very consumptive of capital”. There were further concerns about the effect of higher rates on creditworthiness.

The main risk is a dramatic fall in the assets of insurance companies. The worse case is that... inflationary expectations rise and rates then have to rise further than would otherwise have been necessary.

**Andrew Smithers, City economist**

The president of an insurer in Taiwan said that a continuation of low interest rates would “force the insurance industry to seek more risky targets to satisfy rewards. [They would also] make insurance products more expensive and unattractive to customers.”

The uncertain outlook was described by a UK respondent: “I see the political involvement in setting interest policies continuing to prevent rates from being driven by fundamentals. This makes interest rates difficult to forecast with consequential problems in price formation.”

However many respondents felt that interest rate concerns were overdone. A consultant in Bermuda said: “The low interest rate environment has been a constant for a large number of years now. Insurers who have not adapted and cannot generate underwriting returns will not survive. This low interest rate environment is key to most governments’ post pandemic recovery plans.”

**Are there  
enough good  
people?**



## 6. Human talent (8)

Score: 3.48 (3.40)

The risk that insurers will have difficulty attracting and retaining talent is seen to be on the rise.

A widespread view is that the industry is not doing enough to shed the perception that insurance is boring and outdated, especially to new graduates – leading to an aging workforce which lacks the skills needed to address future challenges.

We are really concerned about the lack of talent in the job market and fear that the limited attention paid to shaping attractive careers is coming to haunt the industry. **James Peverell, director, Elevate Insurance Brokers Limited, UK**

The talent shortage is particularly acute for technology professionals, who can choose to apply their skills in many industries. “Increasingly there is difficulty in recruiting experienced local experts in IT, underwriting & claims especially when

there is an acceleration in digitalisation and automation needs,” said the chief operating officer of a life insurer in Singapore.

The challenges posed by competitive labour markets are sharpened by Covid restrictions and less freedom of movement in some countries. “A very difficult environment for talent is only going to get worse in the next few years with limited migration.”, said the chair of a P&C insurer in Australia, while another respondent said: “Demand-side factors and closed borders are creating a very tight labour market”.

However, a significant number of respondents were more optimistic about the industry’s prospects. A consultant in the UK said: “There is a huge opportunity to bring new blood into the sector from large numbers of the young who have not yet found their niche. Potentially supplemented by bringing some experience back into the sector by employing (early) retirees on a part time basis.”

The chief operating officer of a Canadian life insurer said: “I think there will be more talent movement. While it is not necessarily a zero-sum game, retaining talent will be a challenge but attracting talent will be available. The risk is not attracting and retaining talent, the risk is more associated with the cost associated with high talent movement (paying a premium, recruiting and training costs...)”

**Greater confidence in the ability to handle change**



## 7. Change management (3)

Score: 3.39 (3.76)

Keeping pace with change and making the right decisions at the right time with all the needed talents while facing increased scrutiny by regulators, particularly regarding cyber and ESG risks, is quite a challenge.

**Marc Legendre, Desjardins, Canada**

The ability to manage change in fast-moving era remains a high-level risk, even if it has yielded a few places in the ranking to more urgent concerns.

The chief financial officer of a Luxembourg life company said: “The sector still has to face major challenges related to automation and digitalization. For the moment, all players communicate a lot on this, but are far from being good enough.” An executive at a P&C insurer in the UK said: “You get the sense that a lot of carriers are hanging on by their fingertips, waiting for others to fail. That’s not when you do your best strategic thinking.”

Driving this risk is principally the concern that laggards will fall prey to more agile entrants to the market. The chief risk officer of a South African insurer said there was a risk these will “lose ground to new incumbents who offer insurance in different forms and in new ways.” Customers may also desert insurers who are unable to offer up-to-date digitised services. A UK consultant said that “insurers, like all firms, need to keep abreast of the changes in the structure of the market and the expectations of customers. The key change is an expectation for faster settlement.”

Some respondents questioned whether insurers had the skills and capacity to manage change. One raised the risk of “management burn-out” and another that of “operational overload”. Some also associated this risk with the growth of regulation.

The chief risk officer of a South African composite insurer said that “change management risk is linked to the risk of over-regulation which impedes the ability to respond quickly and effectively to external shifts.”

But other respondents felt that the industry was on the mark. An insurer in Spain said that “the industry has been preparing for these changes,” and from Singapore a non-life insurer said: “the insurance industry is responding with new products and distribution platforms/channels.”

The CEO of an insurer in the US took a different view: “I wish this was a real risk. But time and time again it has proved not to be the case”.



## 8. Competition (7)

Score: 3.33 (3.44)

The risk that insurers will fail to meet the challenge from disruptive competitors has fallen one spot in these rankings, but is receiving a lot of attention. A widespread theme in the responses is that disruptors are having a major impact on the industry, but often by cooperating with incumbents rather than displacing them.

The CEO of a P&C insurer in Canada said: “I see this risk not as ‘us vs them’, but who of ‘us’ will team up with ‘them’, as the barriers to entry are significant.” A chief risk officer said: “Traditional insurers and insurtech could co-exist. The incumbent insurers could digitize and leverage the technology from Insurtech to retain customer relationships and improve services.”

For many respondents, the biggest challenge to incumbents comes from big, well-resources players from other industries who can leverage existing users or customers - such as e-commerce leading platforms, internet search engine platforms and car manufacturers. One view is that these companies could potentially own the customer interface, leaving insurance companies to play a secondary role.

Disruptive technologies will quickly root out the non-cost competitive insurers and customers are spoilt for choice, with online price comparisons being the order of the day. **Thiru Pillay, Liberty, South Africa.**

The threat from Insuretechs was generally seen as less potent. A repeated point was that smaller Insurtech companies currently need traditional insurance players and cannot exist without them. The chief operating officer of a P&C insurer in Brazil said: “We see good insurtech that have good digital sales approach but weak claims and post sales structure, experience and tools.”

Successful startups may be acquisition targets for incumbents that can offer them scale. Insuretechs must also navigate a sector with heavy regulatory demands – though there is also the view that they, perhaps unfairly, face less onerous rules than the big players.

One concern is that Insuretechs could use machine learning and other methods to pick off only the most lucrative parts of the market, which could undermine risk pooling. “New niche entrants that could optimize part of the value chain concentrating only on the most profitable part of the chain”, said the chief executive of a P&C insurer in Italy.

## The threat from disrupters

## Many insurers have de-risked their portfolios



### 9. Investment performance (5)

Score: 3.31 (3.52)

Respondents were broadly unexcited about the prospects for investment, seeing an uncertain economic outlook and volatile markets. However, viewed as a risk to insurance companies, there was a generally lower level of concern, which goes some way towards explaining the sharp fall of this Banana Skin in the ranking.

Respondents noted that many insurers had “de-risked” their investment portfolios in recent years to achieve greater protection from market changes. Matthew Levine, Policy Manager at the Institute and Faculty of Actuaries in the UK, said: “Insurers are relatively unexposed to investment risk as there are fewer guaranteed products than there were some years ago. However unexpectedly volatile investment returns could affect solvency, although there are counter-balancing measures in the Solvency II framework to mitigate short-term impacts, such as the Volatility Adjustment.”

A respondent at a South African composite insurer said it was unlikely that insurers would suffer from weak investment markets. “To the extent returns fall, the market will be expecting this and products will be adjusted accordingly. Diversification is key, and there are opportunities to structure portfolios to chase yield, protect returns, etc.”

One concern is that low yielding markets will drive insurers to take greater risks in search of yield. The manager of financial planning at a large Japanese life company foresaw “a risk of investment damage due to lack of understanding of alternative investments.” And an insurance consultant asked: “Do they have the right employees to understand a rise in interest rates, or a bear market? Many of those with that experience have retired or moved on.”



### 10. Macro-economy (9)

Score: 3.20 (3.40)

The state of the world economy is not seen by the industry as a top-level source of risk. In fact, macro-economic risk has declined one place in the ranking since pre-Covid days.

Several considerations lie behind this. One is that the insurance sector has not historically been especially vulnerable to the vagaries of economic growth: people will save on other things first. Another is that many respondents were optimistic about the economic outlook.

The CEO of a Canadian life company said: “I think the economy is likely to be very strong, coming out of the pandemic. So the risk of macro-economic weakness seems low.” A respondent from the reinsurance sector, agreed: “Economies seem to be emerging from the pandemic reasonably unscathed. Insurers have generally had improved results in certain lines of business, e.g., automobile, during the pandemic.”

[It is] hard to forecast expectations. The worldwide economy should be stable enough to absorb the risk and it should allow growth in the insurance sector.

**Sebastian Böhme-Schwarzfeld, Strategy advisor, Twinformatics, Austria**



However, there were concerns, mainly about the damage Covid may have done to economies, and how its lingering presence might permanently affect demand for insurance services. The chief executive of a Spanish insurer was concerned about “the fragility of the global economy in the face of multiple political, social and health effects,” and a senior executive at a South African composite insurer said that “distributable income drives most of the spend on insurance/assurance. Poor economic conditions will impact all spheres of society.”

A return of inflation was a frequently mentioned concern, and a number of respondents feared that international trade in insurance could be affected by rising geo-political tensions. Some responses observed that stressful economic conditions were fuelling a rise in claims, legitimate and otherwise.



## 11. Political risk (11)

Score: 3.17 (3.36)

The amount of government intervention in the insurance industry varies greatly from one jurisdiction to another, and no overriding theme emerged from responses. Many respondents said they did not experience political risk, others worried it was growing in the wake of Covid. Overall, this remained a medium level risk, though down one place on last time.

Among respondents who ranked this risk high were those who felt that Covid had given governments a further pretext to interfere in the insurance market, for example by pressing insurers to pay out on marginal claims. A respondent at a broker in the UK said: “An indication of this is the political pressure on insurers to pay claims they did not cover (nor ever intended to) arising out of Covid-19.” Another respondent said that: “insurance companies could be forced to bear losses for coverages not explicitly outlined in the original contracts.”

Some respondents also felt there was political pressure to take a generous view of claims of a social character. Respondents from Germany mentioned the growth of “pension politics” between the life industry and the government with one remarking that “the German government is intervening to destroy the private life insurance market.”

A South African respondent said that “The gap between poor and the middle or upper class has become so large that political unrest is now a reality.”

The growth of populist politics was a worry. The chair of a P&C insurer in Australia said political risk “is greater than I have ever seen, and the rule of law is being undermined. This is a major concern as governments become more and more populist”.

However, a large number of respondents dismissed political interference as a high scale risk. The CFO of a non-life insurer in the UK said: “I don’t see this as an issue, particularly as this was not experienced during the pandemic with the business interruption legal case in the UK and other similar cases around the world.”

### Did Covid fuel political pressure?



## 12. Cost reduction (12)

Score: 3.17 (3.32)

The ability of insurers to raise efficiency is seen as essential to survival in a highly competitive market, but at what cost? The risk is that investment in new technology will be constrained and that service quality will fall.

A respondent at a life insurer in Japan said: “We recognize that cost reduction is a very important issue, and we are planning and implementing reductions. But we also recognize that the intensifying competitive environment is a major risk factor.”

Many respondents said that the industry was already heavily committed to cost control, but often struggled to achieve it because of system complexity or heavy compliance requirements, or because management, as one respondent put it, “is so far from the coal face that it cuts the wrong costs”.

However, the risk that cost-cutting could become a damaging exercise was stressed by a number of respondents. An executive at a French non-life company said that “Rather than the cost, it is the increase of quality of service which will be key”. A South African respondent said that cost reduction “should be balanced with talent risk management” and a UK broker said companies “should focus more on value added, not on cost reduction”. Although the customer would benefit from cost reduction, he would also see a reduction in the level of service, for example in the area of access to advice.



## 13. Security risk (-)

Score: 3.04 (-)

A new Banana Skin in this year’s survey, which reflects the trend to work away from offices post-Covid, the risk that new operating models such as remote working will threaten insurers’ security finishes mid-table.

Several respondents who scored this risk highly linked it to the top Banana Skin this year, criminality – but there were conflicting views on whether working from home increased the dangers posed by cybercrime. One side of the argument is that employees at home are less vigilant about criminal activities such as phishing, and may not be as careful with sensitive data. The other side is that after more than a year of the new arrangements, companies have generally ironed out the security risks posed by working remotely rather than in an office. A reinsurance respondent said: “I think most major companies have effective access rights, VPNs and firewalls set up to avoid this [risk]”.

A different area of concern is insurers’ growing reliance on third parties which can fail, leading to disruptions in service and potential gaps in security that savvy criminals can target. A respondent in the UK said: “[Insurers] need to understand the weakest link in their whole supply chain”.

New technologies insurers are using to assess risks, such as telematic devices, may also raise thorny security questions. EeLain Ong, CFO of DHL Insurance in Germany, warned of: “Increased footprint and profile of cyber risks as more devices are connected through IOTs [Internet of Things devices], and through proliferation of personal data with attendant security issues.”

**Is working from home less secure?**



## 14. Reputation (13)

Score: 3.03 (3.26)

Reputational risk has historically ranked towards the bottom of this survey, but since 2019 has risen to the middle of the pack. This year, respondents focused heavily on how the insurance industry is being perceived in light of the Covid pandemic – with mixed views.

“Provided the industry manages itself responsibly this could be a period where insurers demonstrate their value”, said one respondent. The director of internal audit at a composite insurer in the Netherlands said: “Covid might have made clear the added value of insurance and the social responsibility of insurers”.

Others opined that the industry’s reputation has taken a hit during the pandemic, deservedly or otherwise. The CFO of a P&C insurer in Canada said that: “Over the short term, it appears that insurance companies have over-benefited from Covid. This forgets all the poor return years, the growing catastrophe risks and growth in emerging risks like cyber. The complexities of what the future may bring will be hard to explain to consumers in the short term”.

More scathingly, a consultant in the UK said: “Yet again in the pandemic the insurance industry avoided taking responsibility for its policies. Its public reputation is in the doldrums, and deservedly so for many companies”.

Several respondents made the point that litigation against insurers last year, following the denial of Covid-related business interruption claims, had harmed trust in the industry. These lawsuits are seen to have exposed ambiguity in policy wording and sharpened “the perception that insurers will find ways and means to avoid paying claims”, as one non-executive director of a P&C insurer put it.

Martin Jacomb, retired chairman of Prudential in the UK, said: “Financial securities trading and investment horizons have become very short term, and have left the public perception that much of the activity is trading to make short term gains rather than real investment”.

**Did insurers improve their reputation during Covid?**



## 15. Pricing (-)

Score: 2.96 (-)

Uncertainty about the business outlook makes mispricing of insurance products a potential risk, though not a leading one.

A UK-based actuary said: “Some losses due to Covid will have already been incurred by insurers, some of which may have taken steps to mitigate future such losses, e.g., business interruption. However, the Covid pandemic is not over, and great uncertainty remains over its medium-term effects – including long Covid mortality/morbidity impacts and sluggish economic performance.”

The chairman of a Belgian insurer said that “mainly in the area of business interruption, offering full coverage is impossible without the intervention of all insurers/reinsurers/governments...and even then it will be extremely difficult. The risk that a number of companies offer products that are mispriced is real.”

However, as one respondent said, the risk of mispricing or poorly worded contracts was probably greater *before* Covid: since which time companies had learned lessons and become less likely to make errors. Herman Schoeman, CEO of MMH/Guardrisk in South Africa, said “the industry has now gained good experience to appropriately price for these risks and/or to clarify policy wordings to meet all stakeholders' expectations.”

The chief actuary of a Canadian non-life company said: “Covid has not only helped companies assess risk and re-price policies that were impacted by the pandemic, but it has also led to a refining of risk selection, aggregation of risk and tightening of policy wording to ensure coverage is clear across the broader portfolios.”

**Covid was a lesson in risk pricing**



## 16. Social change (18)

Score: 2.95 (3.11)

Insurers failing to meet social pressures - such as greater longevity and demand for healthcare and pensions products – is not seen as an urgent concern this year. But there was a feeling that over the longer term, it may pose a greater risk than its current position in the table suggests. “While the impact is foreseeable in the short term, the impact of population decline and increasing longevity on the insurance business is significant,” said a risk manager at a life insurer in Japan. An underwriter in the UK who scored this risk 5/5 said: “It is a topic that no one seems to want to broach”.

One view that new entrants will fill gaps in the market left by less nimble traditional insurers. A consultant in the UK said: “If there is market demand, solutions providers will enter the market to provide it. In many cases this is unlikely to be the incumbent firms.” In a similar vein, a respondent from the life industry said: “Rather than insurance companies becoming unable to respond, we believe that there is a relatively large risk of falling into an inferior competitive position due to the entry of non-insurance companies”.

[Social change] is not really a risk to the insurers but a big risk to society of under-provision – e.g., failure to provide insurance against risk of being in long-term care; withdrawal of cover due to increasing uncertainty e.g., flood cover and climate change. **Supervisor, UK**

The increasing personalisation of insurance – for example, increasingly granular health insurance assessment – was seen as an opportunity to provide customers with more relevant products, but also a risk. A concern is that some people could be excluded from insurance altogether. “The tendency to individualise everything worries me. The foundation of insurance is sharing the risk and covering each other, but the next generations don’t seem to understand that”, said the head actuary at a Danish life insurer. A consultant in Australia said: “Increased access of individuals to their own risk factors (e.g., through genetic data) will bring increasing risk to insurers e.g., in relation to anti-selection, complaints, privacy issues, etc.”



## 17. Products (-)

Score: 2.90 (-)

The growth in competition is putting pressure on insurers to come up with new products - but these may also represent new sources of risk.

The head of internal audit at a life insurer in Luxembourg said: “Creativity remains a challenge and a ‘must have’ for all insurance players to keep up with competitors. Faster, better, more profitable... This means that pressure on design will continue to increase, which could expose companies to losses/litigation.”

A respondent from a composite insurer in Canada stressed said that insurers faced the risk of “not adjusting core products or not identifying market trends quickly enough, particularly given the distractive nature of the pace of technological change/COVID environmental impacts/regulatory pressures”.

However the most frequently cited concern was the wording of insurance policies and the growing risk of unanticipated claims. Business interruption insurance during the pandemic – which led to legal disputes - was one example.

Insurance products with guaranteed returns, once a big headache, were less frequently cited. A respondent in Brazil said: “For traditional insurers this is not a big issue because of data and years of experience designing products and using pricing predictive models.

**Customers  
expect more**

### Customer expectations

Failure to meet customer expectations was frequently mentioned as a risk. Pedro Herrera Nogales, CEO of Nacional Re in Spain, said: “Distracted by dazzling projects, frequently with its focus away from the real issues, there could be a risk of inattention by the industry to basic customer expectations: clear products and services, personalization, fast and quality service, omni-channel availability and ease of use.”

One respondent said there was “a mismatch between society expectations of insurance and the product.”

A US respondent said of the life industry: “In terms of customer expectations, we do not engage with consumers in a way that works for them. Inevitably, there is some element of the experience that, in the perception of the consumer, re-affirms his/her belief that life insurance is an archaic, 20th century product with no relevance in the 21st century. If they keep the policy, they won't bother to update coverage and ultimately will let it wither away. As their policies wither away, so does our industry.”

However, meeting customer needs could itself create risk. The head of risk at a UK non-life company said: “The need to provide digital services and journeys to customers will necessitate significant technical and cultural transformation, which may result in reduced control and governance, and increase the likelihood of operational and institutional failure.”



## 18. Business model (-)

Score: 2.88 (-)

The low ranking of this risk suggests that respondents have confidence that the insurance industry will adapt to changing market demands, including those created by Covid. A Danish life insurer said: “The existing business models have ‘survived’ Covid”.

Some were more cautious. From South Africa, a respondent said: “Covid has been a catalyst for improvements in business models, though there is some risk of falling short in future.” And from Canada: “For the most part the P&C industry has pivoted its operating model well. It remains to be seen what that will look like in the long run post-COVID.”

### Business models 'survived Covid'

A third category was wary, stressing the depth of Covid’s impact on working practices, customer relationships and products at a time when other changes such as the Insuretech challenge and digitisation were pressing the industry. The president of an insurer in Taiwan said that Covid “has a wide range of impacts...New business models and opportunities need to be mastered, such as remote insurance, new work models (home office, video conferencing, etc.), and industrial investment that will benefit from the epidemic.”

A respondent from South Africa said that the ability to adapt to the post-Covid era was “The highest risk the industry will face.”



## 19. Capital availability (19)

Score: 2.88 (2.79)

The surplus of capital in the industry and its effects on competition continue to be a source of concern, though not a pressing one. Respondents noted that the surplus partly reflected pressure from regulators (which had been a good thing in the pandemic), but was also created by market entrants buying market share. The effect was to squeeze prices, particularly on the reinsurance side, and reduce profitability.

The chief actuary of a UK insurer said: “This may be a good thing for the customer and competitiveness of the product, and for investment in innovation. But it will be interesting to see whether it prompts action by the regulator if profitability continues to be viewed as sub-standard.”

A non-executive director at an Australian insurer said the task for the industry was “to balance capital preservation for current obligations, as well as capital preservation for future obligations under increasingly uncertain and extreme future scenarios, while still investing in future growth.”

There was no clear sense of the outlook for this risk. The surplus could ease if central banks tighten monetary policy, raising the returns on other classes of assets. However considerable uncertainty surrounds that possibility (See Interest rates No. 5). Julian Ross, chief risk officer at Talbot Underwriting, foresaw an “over-supply of capital and lack of underwriting discipline leading to rapid return of a soft market.”



## 20. Credit risk (17)

Score: 2.86 (3.14)

The risk of counterparty default is not considered to be high in the industry, mainly because the insurance sector is better capitalised than previously, and governments would be ready to step in to rescue troubled institutions.

A UK supervisor said: “The markets are much better capitalised which reduces this risk.” The chief actuary at a non-life insurer said: “[We have] generally seen a flight to quality over the last year, and reinsurance capitalisation is generally exceptionally strong.”

However some respondents dwelt on the lack of clarity in the outlook, and the possibility of further credit downgrades.

A senior regulator in South Africa said: “The true impact of the pandemic has not yet been seen as government support has only recently been stopped. The expectation is that there is a lag in defaults due to the government support provided during the last year and a bit.”

Other sources of credit risk mentioned by respondents included climate change where a Japanese respondent said risk was “poorly assessed”.



## 21. Quality of management (16)

Score: 2.76 (3.20)

A fall in the ranking of this Banana Skin implies a reduction in concern about a risk that used to earn a place among the Top Ten. A number of respondents said that the attention given to management quality in recent years, both by companies and regulators, had produced an improvement.

Nonetheless, there were concerns. One was that the growth of prescriptive regulation was steadily eroding the room for management initiative, leading to a loss of control. Another was that growing competitiveness was creating a focus on short-term results. A third was that talent at the top of the business was getting thinner and harder to replace.

A respondent in Australia said that “business is more complex than ever and the pressure to perform more short-term. Insurance is a long-term game and many senior executives don’t have the deep industry expertise that comes from years of working in the sector.”

The president of a non-life insurer in Canada said that “significant advances in the awareness of the need for good governance practices has reduced this risk, but the ability to attract and retain exceptional talent has increased it”.

A chief risk officer in the UK said: “This remains one of the biggest risks in my view. Insurance company failures usually have an event trigger, but there is invariably an underlying operational or management failure that compounds the problem to cause failure.”

**Insurance  
management is  
seen to have  
improved**

Sonia Hierzig, Head of Financial Sector Research at ShareAction in the UK, said: “There is a lack of awareness in the industry about ESG risks, resulting in poor risk management which will lock in worse ESG outcomes in the future”.



## 22. Business conduct (15)

Score: 2.74 (3.22)

Concern about business conduct showed the steepest decline of any Banana Skin in this survey, seven places. The theme in the responses was that much work had been done by regulators and management, and the level of risk had therefore fallen. Mike Thornton, chief risk officer at AIA in Australia (where a Royal Commission recently looked into misconduct by financial services institutions) said that “significant steps have been taken to strengthen practices in this area”.

However, respondents also said this was a moving target: the expectations of customers and regulators were constantly rising, and there was no room for complacency. The chairman of a P&C insurer in Belgium said: “What was acceptable five years ago is not any more today.” Michael Wainwright, Partner at Dentons in the UK, pointed to: “Regulatory action to counter the loyalty penalty, where existing customers are routinely charged more than new customers.”

The growth of competition was cited as a temptation to relax standards of conduct. Dave Bennett, senior vice president, group benefits at Equitable Life of Canada, thought there was “a window for leadership to try to grow sales through aggressive pricing and product design in ways that are harder for oversight functions and boards to detect and understand.”

**Good conduct is  
‘a moving target’**



## 23. Corporate governance (19)

Score: 2.58 (2.98)

Since ranking No. 8 a decade ago, the risk from poor corporate governance has fallen steadily down the table and is now bottom of the list by some margin.

Respondents credited stronger regulatory oversight and controls - such as ‘fit and proper’ frameworks - with improving the quality and professionalism of boards. An underwriter at a non-life insurer in the UK said: “The onus that Directors and NEDs have had placed on them by regulators is significant and shouldn't be underestimated. It should follow that board are populated by highly professional and skilled individuals, which may not have been the case some years ago.”

The chief financial officer of a P&C insurer in Canada said: “I believe the industry is well governed now and one of the negatives (retiring workforce and need to ensure strong succession planning) is a positive for governance as there is a growing pool of qualified possible board members.”

Concerns about governance generally centred around a lack of fresh thinking, as boards grapple with challenges with little historical precedent including climate change and cybercrime. One respondent in South Africa said that “boards should be open to bringing on younger members with different skill sets”.



**Insurance Banana Skins: The Top Ten since 2011**

<b>2011</b>			<b>2013</b>			<b>2015</b>		
1	Investment performance		1	Regulation		1	Regulation	
2	Equity markets		2	Investment performance		2	Macro-economy	
3	Capital availability		3	Macro-economy		3	Interest rates	
4	Macro-economic trends		4	Business practices		4	Cyber risk	
5	Too much regulation		5	Natural catastrophes		5	Investment performance	
6	Risk management		6	Guaranteed products		6	Change management	
7	Reinsurance security		7	Quality of risk management		7	Guaranteed products	
8	Complex instruments		8	Quality of management		8	Distribution channels	
9	Actuarial assumptions		9	Long tail liabilities		9	Natural catastrophes	
10	Long tail liabilities		10	Political interference		10	Quality of risk management	
<b>2017</b>			<b>2019</b>			<b>2021</b>		
1	Change management		1	Technology		1	Crime	
2	Cyber risk		2	Cyber risk		2	Regulation	
3	Technology		3	Change management		3	Technology	
4	Interest rates		4	Regulation		4	Climate change	
5	Investment performance		5	Investment performance		5	Interest rates	
6	Regulation		6	Climate change		6	Human talent	
7	Macro-economy		7	Competition		7	Change management	
8	Competition		8	Human talent		8	Competition	
9	Human talent		9	Macro-economy		9	Investment performance	
10	Guaranteed products		10	Interest rates		10	Macro-economy	

Some risks come and go, some are hardy perennials, as this chart of the Top Ten Banana Skins since 2011 shows.

This year, for the first time, the industry’s most pressing concern is cybercrime – both the threat of attacks against insurers, and the potential costs of underwriting cybercrime. The last three editions of this survey show clearly that the industry has a broader focus on technology – the need to modernise internal IT systems and business models, adapt to automation and modern distribution channels, and compete with new-tech savvy players.

Regulation continues to rank high up the list as insurers grapple with its volume and cost. However, concerns about the macroeconomic environment have receded somewhat in recent surveys – and, perhaps surprisingly, have not re-emerged very strongly during the Covid pandemic.

The risk posed by climate change has risen sharply over the past couple of surveys, and is now seen as a serious threat over a short-term horizon as well as a long-term one. The industry’s ability to attract and retain talent – particularly in technical roles – is also a rising concern.

Among governance risks, the quality of management and boards started high but have gradually fallen down the list, and are now generally seen as lower order – reflecting the view that insurance companies are increasingly better run. Risk management was a significant concern in the aftermath of the global financial crisis, but has since seen improvements.

## Appendix: The questionnaire

### Insurance Banana Skins 2021 A CSFI survey

Biennially, 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: The risk that poor economic conditions will damage the insurance sector.
2. Interest rates: The risk to insurance companies from movement or non-movement in interest rates.
3. Credit Risk: The risk that counterparties will fail to perform

#### Public environment

4. Political risk: The risk of political pressure on the management of insurance companies.
5. Regulation: The risk of excessive or inappropriate regulation.
6. Reputation: The risk of adverse perception or lack of public trust.
7. Social change: The risk that insurers will fail to meet social pressures such as greater longevity, demand for health care/pensions products etc.

## Operating risk

8. Change management: The risk that insurers will be damaged by inadequate responses to changes in markets, products, customer demands, distribution, etc.
9. Capital availability: The risk that excess capital will depress prices and profitability
10. Investment performance: The risk that insurers will be harmed by poor investment performance.
11. Cost reduction: The risk that insurers will fail to achieve the necessary cost reductions to remain competitive.
12. Technology: The risk that insurers will fail to keep up with technological change.
13. Competition: The risk that insurers will fail to meet the challenge from disruptive competitors such as Insurtech companies.
14. Products: The risk that insurance products may cause losses through inadequate design, e.g., products with guaranteed returns.
15. Human talent: The risk that insurers will have difficulty attracting and retaining talent in the present environment.
16. Crime: The risk to insurers from fraud and cyber crime.
17. Climate change: The risk to the insurance industry from climate change, both as an underwriting and an operating risk.

## Governance

18. Corporate governance: The risk that weakness at board level will lead to poor oversight and control of insurance companies.
19. Quality of management: The risk that insurance companies will be harmed by poor business and risk management.
20. Business conduct: The risk that insurers will incur losses as a result of poor sales and other business practices.

## Post-Covid

21. Business model: The risk that insurers will fail to produce post-Covid business models and practices that meet changed commercial and social circumstances.
22. Security risk: The risk that new operating models, for example remote working, will open up security risks for insurers.
23. Pricing: The risk that insurance companies will misprice risks arising from Covid, e.g., pandemic, business interruption.

**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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