Insurance Banana Skins 2023

The CSFI survey of the risks facing insurers

In association with

The London Institute of Banking & Finance

CSFI Centre for the Study of Financial Innovation

About CSFI

The Centre for the Study of Financial Innovation (CSFI) is a think tank established in 1993 that seeks to engage in and promote free and progressive discussion about the challenges and opportunities facing the modern financial services sector. The aim of our research is to open thought-provoking debate about the financial services, with a view to making the industry more transparent, more inclusive and, above all, more sustainable. Following many years of collaboration on events and debates, and on *Financial World*, LIBF's quarterly magazine, CSFI formally joined The London Institute of Banking & Finance (LIBF) in November 2022.

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Preface

This is the ninth 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 very grateful. It is also the first of such surveys since we joined The London Institute of Banking & Finance. We have exerted full editorial control, and the conclusions (and any mistakes) are ours alone.

Our last survey was in 2021, in the midst of the Covid pandemic which generated concerns of its own. Today, war, weather extremes and the cost of living crisis dominate public debate. However, the top four risks highlighted by the insurance industry have not changed. Cyber crime, regulation, climate change and technology remain at the front of insurers' minds. Of course, there are nuances. Without the contribution of life insurers, climate change would supplant cyber crime as the top risk. Our overall Anxiety Index has also risen slightly, reflecting increasing concerns about the complexity and interconnectivity of the main identified risks.

Interestingly, the industry remains sanguine about the risks of poor corporate governance and management, but for the first time, failing to attract the right human talent scores consistently among the top five risks. The insurance industry is not alone in this respect. Concern about the availability of talent seems to be creeping up in many economic sectors and geographies. It is difficult to believe this is only a supply issue; rather it is likely we are observing a shift in the skillset perceived necessary to succeed. Let's revisit this at our next 10th edition!

Meanwhile an enormous thank you to my colleagues David Lascelles and Keyur Patel for their excellent work, and to PwC for making it possible and for helping us to reach the four corners of the globe.

Martina Garcia
Director CSFI at LIBF

Sponsor's foreword

PwC is delighted to sponsor this market-leading publication, which identifies the most urgent 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, now on its 9th edition.

When we last conducted the survey the world was beginning to emerge from the COVID19 pandemic. Long term effects were still unknown, and threats of new variants and future lockdowns were very real. Fast forward two years and acute risks associated with the pandemic are far less of a worry – despite including 'post pandemic effects' as a new banana skin, it was the lowest ranking concern of all. However since the pandemic we have seen fundamental shifts in the way people work, accelerated advances in technology, and significant economic shocks.

Whilst the top risks remain broadly unchanged, it is unsurprising to see the overall 'anxiety level' of the Banana Skins index increase as respondents navigate operating in a new norm.

Technology - friend AND foe
Technology has continued to develop at speed, most notably in AI which was a new risk added to this year's survey, scoring highly. I did consider asking Chat GPT to write this foreword! We all see the potential this has to revolutionise our industry and the way we operate. However, like all things, the associated risks, for example AI bias, or through further increasing the opportunity for cyber criminals to target organisations, must be appropriately managed. Cyber crime is the highest rated risk for the second year running, highlighting the challenge insurers face to stay ahead of sophisticated criminal enterprises.

Increasing impact of Climate change & evolving Regulation
Following the hottest month globally since records began, in July 2023, it is unsurprising to see climate change continue to rise in the list of risks. Climate change is one of the biggest challenges we face as a global society. This will remain a key focus for Boards, and I expect it to continue to increase in severity as a risk.

Climate change, and the broader ESG agenda, has brought with it further regulatory developments, such as the introduction of the Corporate Sustainability Reporting Directive. This year's survey also identifies regulation more broadly as a primary concern for the market, which I expect is driven by both the pipeline of regulatory change across the globe and the expanding toolkit regulators are deploying to enforce regulation.

Thank you to our global network of clients for their participation in this initiative, and to the fantastic team at the CSFI for their insightful analysis.

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

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This report was written by Keyur Patel and David Lascelles

About this survey

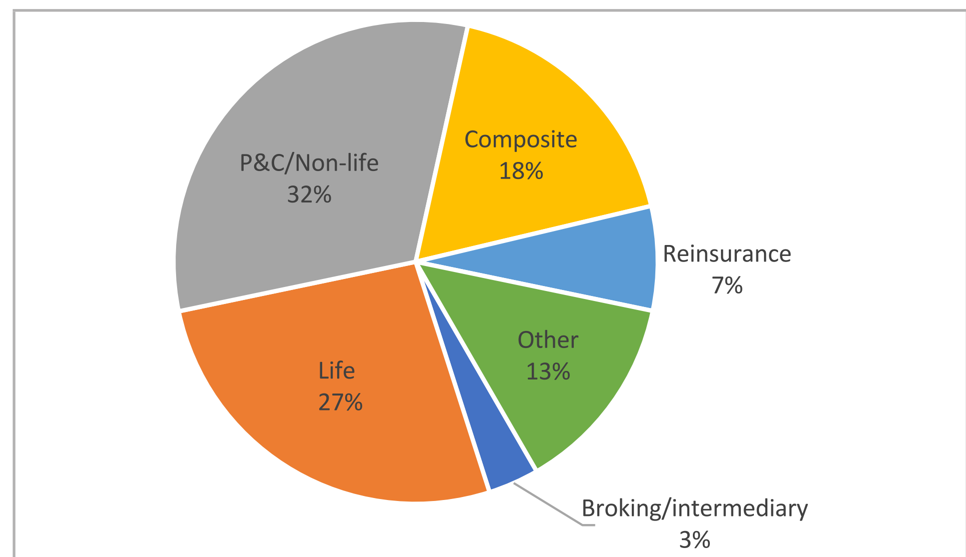
Insurance Banana Skins 2023 surveys the risk facing the insurance indus try in mid-2023, and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

The report, which updates previous surveys in 2007, 2009, 2011, 2013, 2015, 2017, 2019, and 2021, was conducted from May-August 2023, and is based on 589 responses from 39 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.

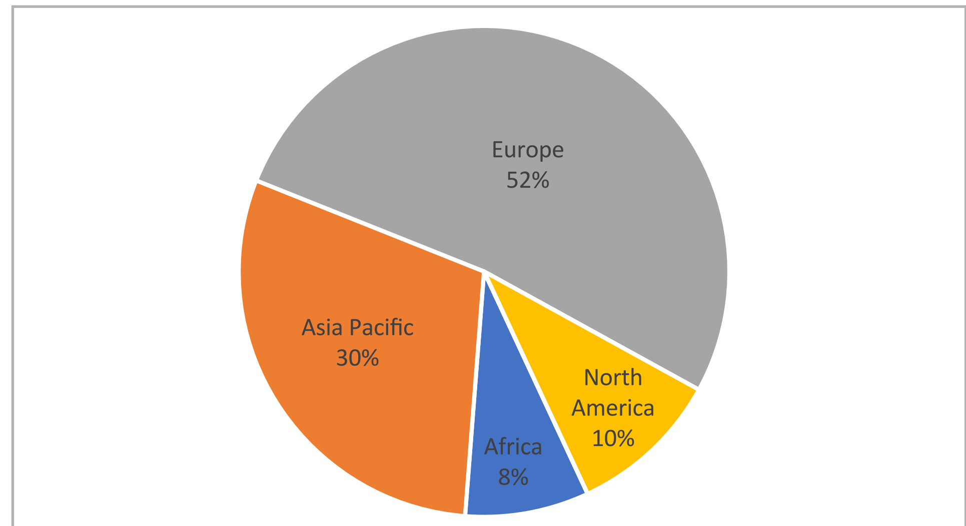
The breakdown of responses by sector was:



Over three-quarters of the respondents were from the primary insurance industry[1]. The remainder were from the reinsurance and broking sectors, and non-practitioners such as regulators, consultants, analysts, and other professional service providers.

1 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:



Half the respondents came from Europe, and almost a third from the Asia Pacific region. The remainder were almost all from North America and Africa.

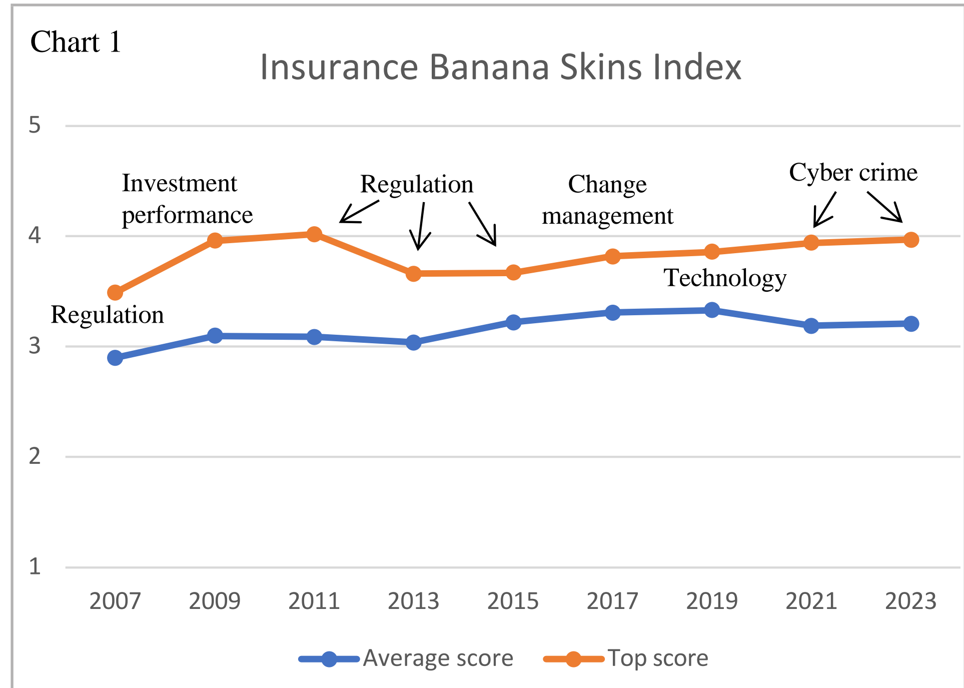
The breakdown of responses by territory was:

Australia	29	Hong Kong	29	Netherlands	30
Austria	11	India	15	New Zealand	10
Bahrain	1	Indonesia	1	Nigeria	21
Belgium	28	Ireland	1	Portugal	1
Bermuda	13	Italy	10	Saudi Arabia	4
Canada	32	Japan	14	Singapore	44
Cayman Islands	2	Kenya	7	South Africa	18
China	2	Kuwait	1	Spain	46
Colombia	1	Luxembourg	32	Switzerland	7
Czechia	2	Malaysia	4	Taiwan	19
Denmark	35	Malta	1	UAE	2
France	2	Mexico	1	UK	58
Germany	41	Namibia	2	USA	12

Summary

This survey describes the most urgent risks, or "Banana Skins", facing the global insurance industry in mid-2023 as seen by a sample of 589 practitioners and close observers in 39 territories. It is the latest survey in a series going back to 2007.

The results suggest that the overall mood of the industry has deteriorated slightly since our last survey in 2021, evidenced by a rise in the "anxiety level" of the Banana Skins Index which averages the scores of the responses.



Respondents were asked to score each of the 24 topical risks in this survey 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.

Chart 2

Major categories of risk*
(Score out of 5. 2021 position in brackets)

	2023	**2021**	**+/-**
1. Operating risks (3)	3.37	3.15	+0.22
2. Public environment (1)	3.32	3.25	+0.07
3. Economic environment (2)	3.01	3.19	-0.18
4. Governance (4)	2.75	2.69	+0.06

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

The sector's fluctuating mood over time is reflected in Chart 1, where the blue line shows the average score given by respondents to the basket of risks in our questionnaire, and the orange line shows the risk which received the highest score.

The main reason for this is rising concern about **operating risk** (cyber crime, climate change, technology etc.). This category of risk has accelerated faster than others such as **public environment** (social, political, regulatory risks) and **governance** (quality of management, business conduct etc.). Only the category of **economic environment** has shown a decline, mainly because of greater optimism about the outlook for interest rates.

Although categories are helpful in identifying trends, risks are becoming increasingly intertwined. Cyber crime and climate change, for example, are operating as well as underwriting risks for P&C insurers, changing interest rates affect both the market for savings products and life insurance company balance sheets, and geo-political unrest can damage both the economic outlook and access to foreign markets.

A chief risk officer in Canada commented: "We are seeing ongoing volatility across multiple risk dimensions (cost of living, social unrest, geopolitical confrontation, financial markets, housing market concerns), which combined with velocity of change, is resulting in a higher degree of interconnectedness across risks. Individual risks may not impact any given company but the interconnectedness may drive impacts that would not otherwise be anticipated. Trying to monitor all of this is a significant challenge."

Chart 3

Insurance Banana Skins 2023

(2021 ranking in brackets)

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

Chart 3 shows the ranking of individual risks. Despite the reshuffle in category rankings, the top four risks on this list are identical to last time, but in a slightly different order.

Cyber crime remains the leading risk, reflecting both the rise in claims and the vulnerability of insurance companies' own systems to attack. Themes this year included the growing sophistication of criminals and government backing.

Regulatory risk remains in second position: the volume of regulation continues to multiply, and with it the risk of non-compliance and runaway costs, though many respondents felt it was also stifling innovation and competition, and leading to worse service which added to **reputation risk** (No. 13).

Climate change has risen a place to No. 3 because of the soaring cost and pricing challenges it presents as an underwriting risk, and the threat it poses to insurance companies' own operations. Excluding respondents from the life insurance industry, it would have topped the overall rankings.

Technology risk occupies fourth place, with high concern about the cost of investment in tech modernisation to replace cumbersome legacy IT systems. This is seen to be made more difficult by the rapid pace of technological change, and the operational risks in managing the transition to digitised services.

A strong riser in recent years has been the risk of recruiting and retaining **human talent**. Up from No. 6 to No. 5, this risk was rated high by all sectors and geographic regions, pointing to a worldwide human resource shortage, particularly on the technical side, at a time when the industry faces considerable **change management challenges** (No. 10).

Macro-economic risk rose from No. 10 to No. 6 because of continuing uncertainty about the outlook, particularly the long-term impact of inflation and the need for **cost reduction** (No. 9), but it was offset by a decline in concern about **interest rates** (down from No. 5 to No. 8) which are seen to be close to their peak, and improving the prospects for **investment performance** (down from No. 9 to No. 14).

A new high-level concern is **artificial intelligence** which enters the list for the first time at No. 7, and whose impact is expected to be skewed towards risk rather than reward because of inadequate regulation and security.

Among lower ranking risks, a newcomer was **de-globalisation** (No. 19) as international tensions raise the possibility that markets and pooling possibilities will be lost to barriers and sanctions. Though urgent because of events like the war in Ukraine, it was not thought deeply threatening to an industry which operates largely at a local level.

Governance risks (quality of management, business conduct and corporate governance) were ranked very low. In last place were **Post-Covid effects** where the view was that the industry is successfully adapting to a "new normal" after the pandemic.

Big movers

The main changes in the ranking highlight growing risks, and those which appear to be receding.

UP
Human talent. Critical shortages developing worldwide.
Change management. The need to adapt to a changing environment is increasingly urgent.
Macro-economy. Long-term inflation concerns.
Cost reduction. Inflation makes this more pressing.

DOWN
Interest rates. The peak may be in sight.
Investment performance. Higher interest rates are producing higher yields.
Competition. Insurtechs have over-promised and under-delivered.

Response by type of respondent...

The responses by sector showed strong similarities, but differed in detail. Life insurance's chief concern was regulatory risk followed by cyber crime, with interest rates, always sensitive, at No. 4. The non-life and reinsurance sectors, which are bearing the brunt of claims, both ranked climate change No. 1, compared to its No. 9 ranking among life insurers. The life side also laid more stress on investment performance and the macro-economic outlook. The non-life side gave heavier weighting to operating risks such as artificial intelligence, change management and cost reduction.

...and by geography

The dominant risk internationally was cyber crime, which ranked No. 1 in all regions except North America where it ranked No. 2, behind regulation. Climate change and human talent were also in the top five in every region. Concern about the macro-economic outlook came below these in most regions except Africa where it ranked No. 1. Africa was the only region which included reputation risk in its top ten. The strong similarities between regional rankings suggest that many of these risks have a global character.

Preparedness

Respondents were asked 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 3.20, down on 3.22 last time, suggesting a slight weakening of confidence in the industry's ability to weather a difficult business environment.

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. Cyber crime
3. Technology
4. Interest rates
5. Human talent
6. Macro-economy
7. Cost reduction
8. Investment performance
9. Climate change
10. Artificial intelligence

Regulation keeps its position as the top Banana Skin facing the life insurance sector, followed by cyber crime. The business environment also features strongly with a focus on interest rate risk, the macro-economy and investment performance. The sector shared the industry's overall concern with the impact of technological change, though the risk from AI ranked lower than in the overall table. There was also a lesser concern with climate change risk compared to the non-life and reinsurance sides.

Non-life

1. Climate change
2. Cyber crime
3. Regulation
4. Technology
5. Human talent
6. Artificial intelligence
7. Change management
8. Macro-economy
9. Political risk
10. Cost reduction

The catastrophe risks in climate change remained the dominant concern for the property and casualty side of the industry, followed by the operational risks brought on by the rise in cyber crime. Technology and artificial intelligence were also high level concerns, along with regulation. The challenges of managing change were ranked higher in this sector than on the life side, though macro-economic risk was ranked lower. In common with the rest of the industry, this sector is feeling the pressure of human resource shortages.

Reinsurance

1. Climate change
2. Cyber crime
3. Technology
4. Human talent
5. Regulation
6. Artificial intelligence
7. Macro-economy
8. Political risk
9. De-globalisation
10. Social change

The reinsurance sector, bearing the brunt of climate change claims, put this risk at the top of the list, as it did two years ago. It also shared high level concerns about crime, technology and generative artificial intelligence with other sectors. Recruitment was also a common problem. Reinsurers were the only sector to place de-globalisation in the top ten, reflecting, possibly, the global nature of this segment of the insurance business, and its concern about protectionism.

Composite

1. Cyber crime
2. Climate change
3. Regulation
4. Technology
5. Human talent
6. Macro-economy
7. Artificial intelligence
8. Interest rates
9. Security risk
10. Cost reduction

Responses from the composite sector reflected the concerns of the non-life side more than the life side: climate change in particular. Cyber crime topped the table, with security risk also featuring in the top ten. The composite sector shared other high-level concerns such as technological change, talent shortage, and the impact of artificial intelligence. The growing regulatory agenda and macro-economic weakness were also highly scored risks.

Brokers/intermediaries

1. Regulation
2. Human talent
3. Cyber crime
4. Climate change
5. Technology
6. Quality of management
7. Change management
8. Corporate governance
9. Artificial intelligence
10. Cost reduction

Brokers and intermediaries shared the industry's broad concerns with regulation, crime, climate change and technology. However, they also placed the recruitment and retention of human talent at No. 2, the highest in the industry. Governance risks – quality of management, corporate governance, and business conduct – were ranked much higher by respondents in this sector than they were overall in our survey. Concerns about change management were also greater than average.

By region

Europe

1. Cyber crime
2. Regulation
3. Climate change
4. Technology
5. Human talent
6. Artificial intelligence
7. Macro-economy
8. Interest rates
9. Political risk
10. Change management

Europe contributed about half of the respondents to this survey. Its rankings were topped by the rise in cyber crime, followed closely by the risks posed by new regulation, particularly within the EU, and the risks to the industry from climate change. The challenges of technological change and the use of artificial intelligence featured prominently, while political risk was seen to present a higher than average threat.

Asia Pacific

1. Cyber crime
2. Technology
3. Human talent
4. Regulation
5. Climate change
6. Macro-economy
7. Interest rates
8. Artificial Intelligence
9. Cost reduction
10. Change management

Cyber crime was the top concern in the Asia Pacific region (including India, Far East and Australasia) closely followed by the growing technology challenges facing the industry. The volume of new regulation was a somewhat lesser concern than in North America and Europe, but the risks around attracting and retaining talent ranked higher than in any other region. Concern about the economic outlook was on a par with other regions.

North America

1. Regulation
2. Cyber crime
3. Climate change
4. Technology
5. Human talent
6. Macro-economy
7. Political risk
8. Artificial Intelligence
9. Interest rates
10. Change management

North America's concerns were identical to Europe's, only in a slightly different order. The North Americans felt that the growth of regulation posed a greater risk to the industry than cyber crime. They also scored political and macro-economic risk high, reflecting in particular turbulence in the USA. Climate change and technology risk were a shared global concern, while talent was a top-five Banana Skin.

Africa

1. Macro-economy
2. Cyber crime
3. Regulation
4. Human talent
5. Climate change
6. Artificial Intelligence
7. Technology
8. Interest rates
9. Cost reduction
10. Reputation

Africa's list of concerns was topped by a worrying macro-economic outlook and the prospect of turbulence. But subsequent risks were in line with wider geographic responses, though with a greater emphasis on talent risks and generative AI. Africa was the only region to include reputation among its top ten risks. However, technology risk was a little further down the table than average.

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 3.20, decreasing from 3.22 last time.

Preparedness by region	
Europe	3.29
North America	3.24
Asia Pacific	3.07
Africa	2.96

Preparedness by sector	
Reinsurance	3.41
Composite	3.38
Life	3.14
P&C / Non-life	3.13

Views on preparedness

Canada, P&C (2/5): "Climate risk is going to be very challenging for insurers to handle looking out over the next 5 to 10 years without government backstops and customers not taking on more risk themselves."

Bermuda, P&C (2/5): "Technology and processes are well behind other industries such as banking and asset management. This risks leaving insurers behind in the race to attract talent going forward."

Belgium, Life (2/5): "Some of the risks require a mindset shift which requires time to achieve."

Germany, Life (3/5): "Well prepared for known (calculable) risks, but not for 'black swans'."

New Zealand, P&C (3/5): "None of these risks are new to insurers and indeed have been on the radar sufficiently long to have boards and management focused on them. On the other hand, several of the risks are beyond insurers' control.

South Africa, P&C (3/5): "Some risks can be managed and planned for, others tend to be reactively managed (e.g. AI). It is also linked to the amount of investment companies are willing to make at various levels, whilst maintaining the returns shareholders are requiring."

Japan, Life (4/5): "We recognise that we are generally prepared for the risks we anticipate. However, the financial environment and technology may evolve faster than expected, and we may not be adequately prepared for changes at a speed beyond our expectations."

Canada, Life (4/5): "Strong underlying governance and risk management programs but we need to ensure they continually evolve".

1. Cyber crime (2021 ranking: 1)

2023 score: 3.97 (2021 score: 3.92)

The risk posed to insurers' operations by cyber crime is the greatest threat facing the global insurance industry over the next 2-3 years, according to this survey's respondents.

Crime also topped our last rankings in 2021, and was No. 2 in 2019 and 2017. Where in previous years we received comments on both the operational and underwriting risks, this year we narrowed the scope of the Banana Skin to focus on the former. Even so, it received the highest score for any risk in this survey since 2011 – and ranked in the top three in every sector and region we looked at.

Respondents worried most of all that a successful cyber attack could jeopardise business continuity, and that the theft of sensitive data – particularly health insurance-related data – could have disastrous reputational consequences for individual firms and the entire industry. The chief risk officer at a life insurer in Hong Kong noted that: "The process and governance requirements of insurance make it difficult to access funds in itself, but there is an increasing cyber risk as insurers have a wealth of sensitive data that bad actors find valuable." There was a sense in the responses that is becoming easier for criminals to monetise stolen data.

A major theme this year was about the growing sophistication of cyber attacks, as hackers and other criminals use a wide variety of 'attack vectors' (methods for attackers to break into IT systems) to exploit vulnerabilities in insurers' defences. Roy Boukens, chief risk officer at Accelerant Insurance Europe, in Belgium, said: "Cyber risk is still in front from a risk point of view. Increased and changing threat levels and vectors make that the risk is very potent and the industry needs to keep adapting." The head of group risk at a composite insurer in Austria said: "The threat landscape is increasing with criminals professionalising their attack vectors. New technologies and usage of third parties increase the risk".

There were also fears that artificial intelligence can be used as a powerful new weapon to breach insurers' security. "Cyber risk is only going to increase as use of AI increases and can be used to mimic real people, and things of that nature," said the senior vice president of an actuary department at a US life insurance company.

Several respondents focused on the state-sponsored dimension of cyber crime, which is perhaps exacerbated by the current political climate. In the UK, Karina Robinson, CEO of Redcliffe Advisory, warned that one of the main risks to the insurance industry is "Cybersecurity in a world of geopolitical upheaval – the professional hackers who move in the shadowy world of being supported by, but not acknowledged by, states like Russia and Iran. Companies, nations and other entities are under increasing cyber attacks, and assigning clear blame for such actions becomes ever more difficult." The deputy chief risk officer at a reinsurer in Hong Kong worried that: "Given a significant proportion of cyber crime originates in the ex-Soviet bloc, it is hard to gauge the impact of economic and sanction pressures due to the extended Russia/Ukraine conflict."

Can the insurance industry keep up with all these threats? On top of the potential damage caused by cyber crime, a concern was that the costs of attempting to mitigate these risks are becoming prohibitive. "Cyber criminals seem to always be one step ahead – the need to invest in cyber security continues to increase," said the chief risk officer at a Canadian life insurer. Investing in defences is seen as more difficult – and expensive – as the IT ecosystem around the insurance industry expands, with the growth of Internet of Things (IoT) devices and increased reliance on cloud and third-party services. A risk manager at a life insurer in Japan said: "I'm concerned more about leakage of cyber-risk information from business partners than head office."

Very few respondents scored this risk lower than a 3 out of 5 in our ratings. But there were notes of optimism in a few comments. A respondent at a P&C insurer in Spain said cyber risk "remains at a significant level since tools evolve, but companies have increased awareness and preparation in the last few years", while the CFO of a US insurer said it was: "theoretically a much higher risk but most companies have taken actions to mitigate it".

The COO of a Danish life insurer said: "The pension industry feels somewhat out-of-scope for the criminals and does experience less attacks than other industries. We do prepare for attacks anyway, but a slightly smaller sense of urgency and a lack of practical experience make us more vulnerable than, for example, banks".

2. Regulation (2)

Score: 3.88 (3.80)

Concern about regulatory risk remains high as the volume of rules and regulations continues to multiply. Many of the reasons behind this concern are familiar, notably the cost and distraction of compliance, and what is seen as the stifling effect on innovation, product development and competition.

Marcos Rodriguez Silva, chief transformation officer, Zurich Insurance, Spain, said: "Excessive, overlapping and sometimes inappropriate or outdated regulation is not a risk, but a reality that burdens companies' agility, innovation, efficiency, profitability and moreover often deteriorates the customer experience".

Newer concerns centre on the increased reporting requirements that have followed the implementation of IFRS 17, and the growing area of non-financial risk reporting brought on by the environmental, sustainability and governance (ESG) agenda, which can entail reputation risk. Inability to attract new talent to the industry is seen as a recent negative outcome of regulatory excess.

> “Currently there are several concurrent waves of regulation, which creates challenges. In the capital space we see the post-Brexit manifestations through the development of Solvency UK; EIOPA weighing up Solvency II reform, and IAIS launching ICS. All of this while many firms are trying to understand the impact of IFRS9/17, with limited explicit guidance on the alignment between the accounting balance sheet (IFRS) and the economic balance sheet used for solvency work.”
>
> **Risk officer, Reinsurance, Hong Kong**

The chief risk officer of a Dutch P&C insurer said that “changes in policy at the macro level, such as requirements to address ESG and the speed at which they happen, have a potentially high impact on business, ranging from the ability to manage change, claims inflation due to changes in underwriting risks (EV, solar panels) and reputational risks by not being able to respond adequately.”

With the growth of common international regulatory and reporting standards, the perception of this risk was widely spread globally. Many countries commented on the mounting problem of complying with solvency, data protection, consumer fairness rules and of facing anti-insurance industry bias. IFRS 17 was as much of a concern in Nigeria as it was in Canada.

Some of the sharpest comments came from Europe where respondents said regulations were “unco-ordinated and disconnected” and risked “opening the doors to foreign competition”. The EU’s Corporate Sustainability Reporting Directive (CSRD) and the Digital Operation Resilience Act (DORA) were given as examples.

A particular concern expressed in the UK was a perceived failure by the government to seize the initiative post-Brexit and tackle the regulatory legacy from the EU. A respondent from the Lloyd’s insurance market complained of “the continued burden of regulatory scrutiny and a limited appetite to make the UK more competitive against European markets”.

A number of respondents, however, played down regulatory risk, arguing that it was on balance beneficial. Luis Sáez de Jáuregui, chief business officer at AXA in Spain, said: “Intense regulation protects consumers and makes current insurance players stronger.” Stringent regulation in recent years was also credited as a main reason for the low scores assigned to governance risks, such as quality of management (No. 21) and business conduct (No. 22), which have ranked highly in previous editions of this survey.

3 Climate change (4)

Score: 3.80 (3.72)

The risk to insurers from climate change is now seen as one of the most urgent facing the industry: it ranked No.1 among P&C insurers and reinsurers, and No. 2 among composite insurers. More respondents scored its severity 5/5 than for any other Banana Skin.

The comments we received came from multiple angles. Insurers face growing claims as natural disasters become more prevalent. Uncertainties in how to price policies increase underwriting risks. Investments in vulnerable assets face devaluation. And this all has serious financial, social and regulatory implications for the industry. The managing partner at an investor in insurance platforms in the US, said: "Anyone in the climate related insurance segment has huge unknown tail risk."

The chief risk officer at an insurer in Hong Kong warned that: "the long-term impacts of climate change is changing the frequency and severity of weather events, showing in the increase in wildfires, convective storms, droughts impacting yields and flooding. The impact on claims is becoming more severe and apparent." Celedonio Villamayor Pozo, director of information systems and technologies at Consorcio de Compensación de Seguros in Spain, said: "With the increasing frequency and severity of natural disasters, the insurance industry faces challenges related to assessing risks accurately, pricing policies, and managing claims".

A big shift in our last couple of surveys has been the perception of climate change as a longer-term risk to one whose effects are already been acutely felt. A respondent in New Zealand said: "We have seen some very large, extreme events which have had a major impact [on the industry]". The CFO of a P&C insurer in South Africa said: "[Climate risk] is already being seen globally, with a rate hardening, specific exclusions being brought in, and continued debate around what is insurable versus what is no longer insurable risk".

> "Climate change has impacted the claims experience in an unpredictable way, with the result that catastrophic losses are becoming more prevalent and insurers are struggling to price the risk appropriately. Moves to exit higher risk markets will reduce capacity and put more pressure on governments to insure losses in their geographies, and this could give rise to regulatory and taxation regimes which aim to shift those losses to insurance industry participants. One wonders if the underwriting process around the potential catastrophic losses noted above will appropriately capture the risk of loss, which could result in the failure of one or more large companies".
>
> **P&C respondent, Canada**

From the reinsurance sector in Belgium, a respondent said: "The main concern to me is the impact of climate change and the pressure that will bring on the insurability of some risks / regions. As a reinsurer we are confronted with a significant increase of the frequency of what was previously called 'secondary risks'". The CEO of a Singaporean reinsurer warned: "If the loss cost continues to rise and insurance pricing cannot keep pace then this will be a huge issue in the coming years."

As well as the physical risks from climate change, respondents worried about the transition risks. One said: "Transition risk is everywhere except in the valuations - why? Nobody knows when this will materialise but it certainly will". Mike Thornton, executive adviser at AIA Australia said one of the main risks facing the insurance industry in the near term is: "Climate change – the risk of insufficient action and the costs of the resulting disorderly net zero transition".

> "Topdanmark is here to help our customers and the society we are part of. Therefore, sustainability is a natural part of our business strategy. As an insurance company climate change has a direct effect on the volume of claims and we have a platform to talk about the consequences and make a positive impact."
>
> **Johnny Hejdemann, executive advisor, Corporate strategy, Topdanmark, Denmark**

As in previous years, climate risk was given a lower ranking on the life side of the industry (No. 9), reflecting the perception that "non-life is much more exposed than life", as a CFO in Germany put it. A risk manager in Hong Kong observed that: "In the life insurance industry, there is little data on underwriting risk, making it difficult to quantify risk".

4. Technology (3)

Score: 3.79 (3.77)

The risk that insurers will fail to keep up with technological change has dropped one place in the rankings but its score has risen, underlining the continued level of concern. It was a top-five Banana Skin in every sector we surveyed.

The insurance industry was seen by many as a laggard in technology when compared, for example, with the banking and funds sectors. A respondent from the life side in Luxembourg said: "The sector still lags behind many sectors in terms of its ability to fully address the digital challenge and adjust its business model accordingly. Some digital initiatives have been launched but far too slowly compared to what is required to remain relevant in the future". A financial controller from the non-life side in the UK said: "ESG, IFRS17 and tax digitisation have been delayed as insurers are not able to meet these requirements with their legacy systems".

One of the main obstacles to tech modernisation is cost – particularly when it isn't clear how long new IT systems will remain relevant, and other priorities are pressing. "The technology world is moving very fast. The amount spent to implement chosen technologies may not generate returns on investment, leading to increased cost of operations", said the head of data analytics at an Indian P&C insurer. A respondent in Canada observed the "pace of technological change placing more pressure on companies' IT budgets".

But perhaps a bigger risk is that those that fail to invest face higher costs of doing business than their more technologically savvy peers. A respondent from the P&C industry in Denmark saw: "the possibility for one or a few dominant players that will succeed with their transition, while the rest of the companies will fall behind in a way where they will not be able to catch up to the market again". Afolabi Lawal, executive director and CFO at Prudential Zenith Life in Nigeria, said: "Insurance must be able to embrace technology as a deliberate strategy to manage the cost of distribution through existing traditional channels". The CEO of a German

consultancy said: "A balance must be kept between short term profitability targets and long-term technology investments."

Respondents also pointed out that investing in new technologies does not guarantee that they are implemented effectively. "Firms will need to embrace both new technology but also adapt to operational change and it's the latter that is much harder to get right", said the CFO of a non-life insurer in the UK.

> "Difficult for most (existing) insurance companies to get a good overview of their data. [There are] large projects and investments in theoretically sound data governance and IT tools, but extreme difficulties getting all the data in a uniform way in those (mostly complex) systems. Introducing another layer of expertise is needed. There are long implementation times with uncertain outcomes."
>
> **Chief Actuary, P&C insurer, Netherlands**

The CEO of the life side of a reinsurer in Australia said: "Traditional skillsets of staff and culture of insurance companies definitely slow down their ability to create or adapt to change in the digital sector. There is an acknowledgement that it will play a major role in the future but – except for process automation solutions – not enough concrete action yet to lead the change in insurance products or distribution. Very conservative distribution channels/lobbies and regulatory hurdles do not help".

Among those who scored this Banana Skin as a lower risk was a respondent from a Kenyan life insurer, who said: "Many insurance companies are automating their processes indicating their awareness of the usefulness of technology in their operations. The challenge is that many consumers still want that human-to-human interaction, especially after Covid 19 where after spending many months isolated, the importance of social interactions has come to the fore."

5. Human talent (6)

Score: 3.75 (3.48)

The risk that insurers will have difficulty attracting and retaining talent has broken into the top five of these rankings for the first time, and by score rated among the top cluster of Banana Skins. It also topped the table for brokers, and was No. 3 overall in the Asia Pacific region.

The most commented-upon reason is an acute difficulty of finding appropriate talent in technical roles, particularly technology-related. Enrique Vives, head of corporate finance at Zurich Spain, said that one of the main risks facing insurers is "low supply and high difficulty in recruiting highly qualified employees in the areas of pricing, advanced and flexible IT systems, advanced analytics and financial expertise".

A widely pondered question was whether the industry is "sexy" enough to attract people with these much-needed skills. The CIO of a P&C insurer in Demark

observed that: “The greatest challenge will be to attract and develop technological, legal and data competencies in the years to come while the sector is not perceived as innovative in these professions”. A respondent in Belgium noted that “after 15 years of cost cutting and salary decreases, Belgian insurance companies are not attractive anymore to youngsters”.

These challenges come amid what was frequently described as a “war for talent”. The defining issue, here, is not just levels of pay, but whether insurers can appeal to the broader expectations of younger generations in the workforce, particularly after the normalisation of hybrid work during Covid. As one respondent put it: “Younger generation loyalties are harder to obtain, and what motivates them harder for current leaders to understand”.

> “The war for talent is expected to continue and not enough is being done by the industry to bring in a more diverse talent. Pay expectations are significantly increased which will add pressure to the expense base. Post-Covid work practices will also have an impact on developing future leaders as the basis of learning a complex industry has largely been on the job – which is much more complex in the current environment.”
>
> **CFO, P&C insurer, UK**

High employee turnover – amid poaching of talent between companies, and a wave of retirement – was a particular worry. The head of internal audit at a life insurer in Singapore said: “Post-pandemic, the industry has seen an uptick in attrition and turnover. Whilst it is less visible in terms of immediate impact, losing key people with the right knowledge/skillset is a major risk for our company and the industry as a whole.” The CRO of a life insurer in the Netherlands said: “A challenge post-covid is to maintain social cohesion of the work force. Improving work life balance would impact social cohesion at work, lowering the threshold for employees to shift.”

Some respondents argued that the risks posed by the talent gap require insurers to focus more on retraining their existing employees. The head of internal audit at a life insurer in Luxembourg said: “In a changing world, competencies need to continue to evolve to align with current and future challenges. Investing in people will hence remain critical to adapt. Employees will need to be more flexible and develop new skillsets through their career.”

6. Macro-economy (10)

Score: 3.49 (3.20)

Concern about macro-economic risk has risen since our 2021 survey as many of the threats it identified at that time advance: recession, inflation and geo-political uncertainty. The breadth of the risk was summed up by a respondent from Luxembourg: “Poor economic conditions can significantly affect the insurance industry, leading to reduced demand for insurance products, higher claims, decreased profitability, and potential solvency issues. These risks are considerable

and can have a substantial impact on insurers' financial health and stability."

Respondents were particularly concerned about the impact of inflation – which many felt would be slow to abate - and the accompanying rise in interest rates. These would put pressure on pricing and profitability, as well as affecting the size of claims and the value of loss reserves.

For insurers there is also the risk of "social inflation": the likelihood that claims will rise in size and frequency due to client stress, plus the public view that insurers should be made to take on more of society's economic risk when times are hard. Many respondents reported that claims were rising, driven by the rising cost of living, litigation and plain fraud. Greg Hendrick, CEO of Vantage in Bermuda, said: "Inflation, both real and social, continues to impact losses to our industry. While CPI inflation is trending towards more normal levels, social inflation is on the rise in the US court system, and resuming pre-pandemic levels. This hard-to-measure inflation drives loss severity and we are reaching levels not seen previously in some jurisdictions."

Pricing was a concern. Many respondents feared that rising premiums would make customer retention a key risk. Tim Grafton, CEO of the Insurance Council of New Zealand, commented: "Current global economic conditions remain weak with high inflation, potentially raising risks of people not insuring/underinsuring and adding costs to the sector as claims values rise."

The impact on investment income was also a concern. The chief risk officer at a P&C insurer in Canada said: "Our ability to fund claims and also keep rates affordable to customers is heavily impacted by our success in achieving reasonable returns from our investment income".

Concern about macro-economic risk was higher on the life side (No. 6) than the non-life side (No. 8) because of the former's exposure to interest rates and savings competition. Mark Shi, chief risk officer at Income Insurance in Singapore, said that "insurance companies are facing headwinds in terms of reduced top line as more customers put their money in higher return investment products." On the non-life side, the main focus was on rising costs, lapse rates and profitability. The reinsurance sector (No.7) was also concerned about rising costs.

Responses also varied by geography. Industrial economies were more optimistic than those from the developing world, particularly Africa where this was rated the No. 1 risk because of the fragility of local economies and the potential knock-on of recession into political risk. Europe, by contrast, placed it No. 7.

However, there was still some optimism that a severe recession will be avoided and the inflation threat contained. Respondents commented that insurance usually stood up well to recessions, being a counter-cyclical industry and – now – subject to tougher capital requirements.

The chief risk officer at a non-life company in the Netherlands commented: "Poor economic conditions will not have a direct impact, but indirectly can have

pressure on business, e.g., through defaults or lower income. It will not damage the insurance sector but will require it to address the impacts that come with it, e.g., increasing fraud, softening market, focus on efficiency and readiness for downscaling."

7. Artificial intelligence (-)

Score: 3.44 (-)

Introduced to our survey for the first time, the risk from the misuse of Generative AI is attracting a lot of attention.

We received comments on the difficulties of regulating AI, a lack of transparency in "black box" models, and the potential for overreliance on interconnected data sources that could create systemic risks. Reflecting the tone of many responses, a respondent in Spain said: "AI may become a great opportunity, but a lack of regulation and security may become an even greater risk".

Michael Rolfe, head of L&H Solutions Sales APAC at Swiss Re in Hong Kong, said: "I actually see the risk vs. reward of Generative AI for the insurance industry as being much more skewed towards risk. The potential for profound and rapid social change combined with a much less agile legal and regulatory environment creates a big potential for risks pools to rapidly emerge or shift where the insurance industry is unknowingly exposed."

Several respondents made the point that AI outputs are often dependent on opaque data sources that can change or break suddenly. The chief risk officer at an insurer in Bermuda commented: "A lack of regulation and transparency around the 'black box' in the middle [of AI models] could potentially lead to manipulation of outputs. This could present systemic risks if a concentration of, say, investors, are using the same 'black box' as a decision-making tool. The head of internal audit at a Kenyan insurer said: "Using AI for good and controlling the bad is another very high risk. What happens when the underwriting data on which all other decisions are dependent is manipulated?"

The types of risks posed by generative AI were seen to depend on how insurers choose to deploy this still incipient technology. In Canada, the chief risk insurer of a life insurer said: "Historical data must be used with caution and leveraging too much 'social media' data can be dangerous through introduction of unintended bias. How these models function can only be learned as you try to train them. While the opportunities are promising and exciting, the risks are significant." The head of change and transformation at an Austrian underwriter noted that: "Insurers, like all other businesses, needs to have a clear vision of what they intend to achieve with the usage of AI. Being driven by buzzwords and fuzzy trends can be noxious".

Among those who ranked this risk lower, there was the view that the conservatism of the insurance industry in adopting new technologies reduces the threat from Generative AI in the short term. A life insurance CFO in the UK said: "Too early

in the game for this to be a risk... yet. Insurers will likely be prevented from being early-adopters of this technology, though longer term its use cases are clear". Jan-Hendrik Erasmus, CFO of Athora NL in the Netherlands, said: "I think the bigger risk is 'slow understanding and adoption', potentially resulting in disenfranchisement of the sector".

8. Interest rates (5)

Score: 3.38 (3.52)

Interest rate risk has fallen three places in the ranking with the easing of uncertainty about the outlook that prevailed at the time of the last survey in 2021: interest rates have risen, and the expectation among many of our respondents is that they are close to their peak.

However the impact of rates at current levels (unprecedented to many, though not to a few who recalled the 1970s) could still be substantial.

"The rapid rise of interest rates generates risks with multiple impacts, especially for life insurers:
a) surrender risk: lapses rates may increase and affect the associated assets,
b) credit/counterparty risk: corporate (especially banks) and sovereign debt exposures,
c) asset diversification and yield: past and current asset allocation to alternative assets with the aim of generating additional yields will be revisited."

Hervé Gloaguen, CEO and Founder, Paracas Advisors, Germany

Many described high interest rates as double edged. They raise the risk of recession, with the attendant dangers of worsening credit quality and reduced consumer spending capacity. There is also a negative impact on own funds and reserves. But they help insurance companies by delivering higher investment returns, particularly if they reach positive territory. A respondent from New Zealand said: "Interest rates appear to be impacting consumers rather than insurers, but there is a knock on effect."

The chief financial officer of a non-life company in South Africa said that, on the one hand, higher rates were "beneficial, as the higher interest rate cycle will result in improved yields on the large amount of liquid assets insurers are required to keep" but, on the other, they would put "strain on the policyholders."

This was a risk ranked considerably more severe by the life side (No. 4) than P&C (No.11) because of its impact on savings products.

As to the outlook for rates, many felt that the peak was now in sight, and that the impact of higher rates had largely been absorbed. Interest rate risk was "manageable". But there were pessimists. A Belgian respondent said: "Companies might get higher financial returns, but it will take some years before the period of low and negative interest rates is digested."

There was also the longer term impact to consider: portfolios would take time to adjust, demand for insurance might change and industry restructuring could come about. One UK broker feared the insurance industry would come out of the inflation period with a lesser appetite for innovation and risk, leading to reduced competition and business quality. It would “withdraw into itself”.

9. Cost reduction (12)

Score: 3.28 (3.17)

In the present inflationary environment, the cost pressures on insurance companies are strong. They come from many directions: distribution and claims, compliance, human resources, and the cost of adapting to changes brought on by new technology. The failure to get on top of costs was seen as a medium to high risk.

A respondent from a Canadian composite company said: “There is increasing pressure to develop new products, digitize and adapt to new working models, to increase spending to address growing cyber risk and evolution of technology, while also containing costs. [This is] impacting operational risk and how it is managed. One respondent saw “the risk of death by quicksand” as rising costs drag companies down.

The scale of the challenge was widely acknowledged. A US respondent said: “Companies still need to become more cost efficient which is hard to achieve. From London, the capital of the global insurance industry, a respondent said: “Brokerage costs are too high and other inefficiencies in the London market - with big expensive projects being charged to companies - are making London uncompetitive with other locations.”

Many respondents pointed up the dilemma: cost reduction is itself very expensive. And there is the difficulty of matching rising costs with higher premiums in a market that is highly competitive and prone to lapsing. This squeeze could trigger consolidation as companies abandon “old school” operating models and seek refuge in size.

This risk was seen as more urgent by the life side (No. 7) than the P&C side (No. 10).

10. Change management (7)

Score: 3.28 (3.39)

The ability of insurers to handle change remains a medium to high long-term concern, though it has been overtaken this year by more urgent risks.

All respondents emphasised the size of the change agenda that lies before the industry in the fields of technology, AI, consumer demand, product innovation, competition and evolving risks in ESG. Can the industry change, or will it

become, in the words of one of them, “the heavy industry of the 21st century”?

There was much scepticism. A UK broker said the industry had “a 20 year track record of failing to deliver...This is not changing and insurers are protected by legislation that is making insurance compulsory.”

In Spain, Pedro Herrera, CEO of Nacional Re, raised the possibility that the insurance industry “would not be capable of evolving at the rate that other industries, science, technology and climate evolve, [and be able] to offer value solutions that provide a reasonable level of performance certainty to individuals, families, companies and the overall economy.”

Underlying many concerns was the need to remain “relevant” in a market where technology and structure were evolving, and meet the expectations of the consumer. A respondent from Italy questioned the industry’s ability “to create a simple business model with the customer at the centre in an increasingly complex regulatory and technological context.”

Hampering the industry are the speed of change, staff shortages and a demanding regulatory environment. A Canadian insurer said: “All combined, the pace of needed innovation will continue to accelerate, putting pressure on companies to prioritize the innovations they tackle and to successfully implement those innovations at a higher success rate than in the past.”

Some respondents were more sanguine about this risk. A chief actuary in the Netherlands said: “This will be true for some insurers, but it will create opportunities for others. I see this as a fact of doing business.”

11. Political risk (11)

Score: 3.27 (3.17)

Perceptions of political risk vary greatly by location, but the overall view is that political pressures on the insurance industry are rising, whether indirectly as a result of geo-political tensions, or through direct interference by governments in the management of insurance companies, for social and economic reasons.

Global instability was seen to contain the risk of disruption and recession, as well as fuelling a more febrile atmosphere around insurance issues. Respondents said they expected to see – or already saw – political pressure to hold back premium increases, to serve “gaps” in the market and to promote government ESG agendas, particularly in the area of climate change.

A respondent from Bermuda said that political uncertainty was “showing up in the impact of war (Ukraine, Yemen, Middle East Iran/Israel/Palestine), riot and civic commotion (USA, South Africa, France), and product liability (opiates in the USA).”

The balance between industry and consumer interests is also seen to be increasingly

tilted towards the latter by regulators and policymakers. The limited availability of natural catastrophe insurance is attracting more political concern, as is the so-called insurance gap in pension and health insurance.

Some respondents also reported attempts by governments to influence their investment decisions, for example by pressing them to buy treasury bonds or invest in environmental projects. Others saw government moves to over-rule or extend the coverage in insurance contracts. A respondent from a large Swiss reinsurer said there was "pressure for insurers to expand the scope of coverage or provide non-contractual payments post-event."

No obvious pattern emerged from the responses to this risk. Geographically, concern was highest in North America (No.7) and Europe (No.9), and lowest in Asia (No.18). A respondent from South Africa described it as "very high", and one from Spain referred to political interest as "a major threat to management".

But Andrew Horton, CEO of QBE insurance in Australia, said: "Politicians in their spoken word can be negative to the sector but are generally supportive." A respondent from Luxembourg said political interference was "limited in Europe", though others saw the EU Commission's efforts to ban commission-based selling as politically motivated.

12. Security risk (13)

Score: 3.13 (3.04)

The risk that new operating models such as remote working will open up security risks for insurers has climbed a position, perhaps due to the perceived urgency of cyber crime.

From New Zealand, a respondent from the P&C side of the industry said: "These are currently being managed but it is always a challenge being one step ahead of cyber criminals", while an actuary noted that "Phishing and hacking attempts are ever present".

Views were divided on the implications of remote working. A respondent in Canada said that the: "work from home model was suddenly adapted with little consideration to change traditional controls and checks and balances that were used pre-hybrid." The CFO of a life insurer in South Africa said bluntly: "If you work at home, security is not as good as in the office".

Conversely, a respondent in Germany took the view that: "Three years after the start of COVID, operating models have mostly adapted". The CEO of the life division of an Australian insurer noted that: "IT systems from big companies largely control remote working devices too", and the managing director of a Belgian P&C insurer said: "Insurers are paying more attention to log-in risks".

A separate area of concern is the increasing reliance of insurers on third parties that can fail. "The most severe risk is vulnerable partners in the value chain", the

CRO of a composite insurer in the Netherlands said. A P&C respondent in Spain observed that: "Increasing dependency of fewer Big Tech suppliers (i.e. cloud services) creates a risk derived from concentration".

13. Reputation (14)

Score: 3.11 (3.03)

This is the highest ranking we have seen for reputational risk, which until the last few years ranked towards the bottom of this survey.

One reason for this growing concern may be, as a respondent in New Zealand put it, that: "Rising insurance premiums inevitably bring reputational risks." The vice president of strategy at a P&C insurer in Canada said: "Tighter markets lead to tighter claims management practices and more denials. A combination of higher prices and less certainty that you will be treated fairly if you have a claim threatens public confidence in insurers."

There was also a feeling that the industry is not doing a good job in explaining the utility of insurance. "As ever the public at large see insurance as a burden and not as an enabler for financial security," said the CFO of a P&C insurer in the UK. A life insurance respondent in the US added: "The way we interact and engage with today's consumers leaves them with a belief that we are not relevant. This causes them to disengage from the process, impacting business volume."

> "Increase of transparency and training is crucial. Insurance is often perceived as a commodity. Intermediaries have a core role in supporting and explaining what we are selling to the client."
>
> **Stefano Pasquali, group head of financial audit, Assicurazioni Generali SpA, Italy**

In our last survey in 2021, many of the responses we received on this Banana Skin focused on how the insurance industry was being perceived in light of the Covid pandemic – good and bad. Two years on, a respondent in Honk Kong said: "In the immediate aftermath of Covid it appeared insurers were evading their liabilities, e.g., on BI [business interruption] claims. This is less of a concern looking forward".

A more pressing concern this year is reputational risk arising from the way insurers handle the biggest perceived threats to the industry, including climate change and cyber risk. A respondent in Germany warned: "The development of high frequency and high impact events related to climate change will affect their insurability or at least the premium levels. This may not be well understood by the public".

An academic in Denmark said one of the greatest risks to the insurance industry is "Reputational risk in connection with data ethical considerations. The public and the customers are quite sensitive to these discussions and small wrong steps may be quite damaging". The chief risk officer of a life insurer in Australia said a main

risk was "how to manage reputational and other non-financial risks that arise from cyber attacks, which are difficult to predict and difficult to contain".

14. Investment performance (9)

Score: 3.09 (3.31)

The rise in investment yields brought on by the increase in interest rates has brightened the investment outlook for the insurance sector, leading to a fall in concern about this risk. The chief financial officer of a US P&C insurer said: "I expect an above average investment performance over the next 2-3 years."

Market volatility, however, remains an issue, and several respondents expect this to impose a need for caution. The chief financial officer of a Canadian insurer predicted that "investment markets will be less reliable in the near future as long the numerous destabilizing factors continue to exist." The chief financial officer of an Australian life company predicted that "companies will need to hold more buffer, and be more prudent in their forecasts, which may lead to upside in results, but is unlikely to benefit policyholders".

This risk was ranked higher by the life side (No.8) than the P&C side (No.16).

A respondent in Canada said: "Interest rates are currently up, but is that sustainable? What impact will that have on the long term returns for life insurance companies?"

Regardless of the direction taken by the markets, the dependence of insurance companies on investment returns for profitability was viewed by some respondents as an ongoing risk, though others said this dependence was declining. The chief underwriting officer at a Spanish P&C insurer said that the balancing effect of volatility was to create "an improved focus on underwriting performance which can drive a more sustainable market."

15. Social change (16)

Score: 3.02 (2.95)

There was little change in the position of this risk, though the responses reflected a sense that the demographic, life and health challenges facing the industry are growing as public services deteriorate.

Heidi Torm, CIO at LB Forsikring in Denmark, said: "The expectation from the customer is already growing faster than the sector's ability to deliver. This gap will grow further in the years to come in combination with the decreasing trust in financial institutions."

Many respondents commented that this was an area where the public and the private sectors will need to collaborate, which itself raises risks from interference and more intrusive regulation. The countervailing risk was that insurers could suffer reputation damage if they failed to cooperate.

This is also a risk which demands that the industry innovate and design products that are affordable. The fast-rising cost of medical care adds urgency. A respondent in the UK wondered: “I think insurers are more than capable of meeting this need; are the customers willing to pay for it though?”

While many of the risks are, as yet, unknown, a number of respondents felt that the industry was up to the challenge. A respondent from Italy said that “insurers are working to be ready to face these changes,” and the general manager of risk at a large Japanese life company said: “Since this is a risk that emerges gradually, it seems possible to deal with it to some extent.”

This risk was similarly ranked by sectors (life No.18, P&C No.19), though there were geographical differences. Europe put this highest at No.13 and Africa lowest at No. 23.

16. Competition (8)

Score: 3.02 (3.33)

The biggest faller in this year’s survey, the risk that insurers will fail to meet the challenge from disruptive competitors – such as Insurtech companies and other technology-enabled start-ups – has dropped 8 positions since 2021.

With the high rankings of Technology risk (No. 4) and Artificial Intelligence (No. 7), this may seem puzzling. However, there was a widespread view that Insurtechs, which have now been around for some time, have overpromised and underdelivered. Daniel von Borries, CFO at Swiss Life Germany, said: “This risk is highly overestimated in the public domain. Large number of start-ups, but very limited impact”. The deputy chief risk officer of a reinsurer in Hong Kong said: “Relatively large waves of change, e.g., telematics, have already happened. Until AI is able to demonstrably create a competitive advantage for leading players, disruption feels muted.”

A key question in this discussion is whether technology-enabled insurance startups are able to create viable business models. “Unlike banking and some other sectors, insurtechs have so far been unsuccessful in reaching profitability”, said Christopher Bunzl, CEO of Grupo Mutua Propietarios in Spain. “The level of complexity of most insurance ecosystems and continuously growing regulation, which has been and is a problem for established insurers, is an even greater challenge for newcomers to build up profitable new business models. Insurtechs have so far, nevertheless, been successful in creating new technologies to improve specific business processes.”

> “Although Insurtech has been around for several years, their success has been relatively limited. It seems that start-up losses are (too) large, including capital requirements. They could be disruptive in certain parts of the chain, but balance sheet and regulatory requirements will continue to be a hurdle.”
>
> **Head of Corporate Finance, Composite insurer, Netherlands**

Several respondents predicted that Insurtechs will more likely partner or be bought out by industry incumbents than attempt to compete with them outright. The financial controller at a UK life insurer said: "Most Insurtechs are in the market to sell out to legacy insurers. Most are marketplaces or aggregators, and most don't risk themselves." A life insurance respondent in Kenya said: "Technology startups need to work with existing insurers and form partnerships. The principles of insurance which the Insurtech companies tend to ignore remain fundamental".

A more potent challenge to industry incumbents may come from the big technology companies, with abundant access to capital and a large customer base. The CRO of a Swiss underwriter said that: "The past [few] years showed resiliency of traditional insurers; however, this may still change if large companies like Amazon or Google enter the market".

17. Products (17)

Score: 2.96 (2.90)

Two broad areas of risk were identified by this question: one, that the insurance industry would fail to innovate and fall behind changing demands in the market, the second that new products would be poorly designed and expose companies to losses.

With the pace of change accelerating, respondents stressed the importance of sound product innovation, especially in emerging areas such as environmental risk, AI, cyber crime and the gig economy. An executive from the P&C side of the industry in Denmark said: "Consumer preferences and expectations are continuously evolving. We must be prepared to meet the demand for personalized products, seamless digital experiences, and responsive customer service."

The risk of loss through poor design was raised both as regards past products with long tails created in very different market environments, and new products designed for less understood emerging risks. A work site employee insurer from Switzerland said that "New products or even existing lines like Cyber have not been fully tested in macro stress scenarios." Respondents also observed that the introduction of "value for money" regulation in many countries adds a new layer of regulatory risk to savings products.

The managing director of a Luxembourg insurer said that "Rigorous development, risk assessment, and clear communication are crucial to mitigate [product] risk and maintain policyholder confidence".

But some respondents argued that this risk could be managed, such as one from the Netherlands, who said: "Risk management has improved strongly over the years, including product design." A respondent in Singapore commented: "Some start-ups may make/sell long term risky products in order to gain market share. But the insurance industry is run on hard actuarial practices."

18. Credit risk (20)

Score: 2.95 (2.86)

Concern about credit risk is rising moderately, though this is seen as a risk which can be monitored and controlled.

The head of corporate finance at a large Netherlands composite insurer said: "This risk is increasing as the impact of higher interest rates is felt in specific sectors (e.g. real estate), and a potential recession could accelerate credit losses." A director of economic analysis at an insurer in Spain said that "during 15 years of very low rates, a lot of investments were made considering that money was 'free'. Many businesses will not survive 5% borrowing rates."

A respondent from the life insurance industry in the UK said that while the risk was low, "I do believe businesses have been supported via cheap funding/liquidity from central government since the financial crisis, so a few firms will fail now interest rates are rising". A consultant in the US said the risk was exacerbated by the fact that there were few insurance professionals with experience of a rising rate environment.

Aside from real estate, potentially sensitive sectors that were mentioned included sovereign risk, small businesses, construction, mortgage-backed securities, and long tail classes. Reinsurance, facing a tide of catastrophe claims, was also singled out as a sector that might face stress.

But there was also a feeling that this risk should not be exaggerated: insurance companies were more prudent and better capitalised than before. A respondent in Denmark said: "It is my experience that the sector has a strong due diligence and risk analysis tradition and thus has a lower risk here than other sectors. That being said there are a lot more integrations and collaborations than before due to digitalization, and therefore a larger risk than 10 years ago."

19. De-globalisation (-)

Score: 2.92 (-)

With tensions rising at the international level and nationalism growing at home, a potential threat to the global insurance industry is the erection of barriers to trade and a retreat to domestic markets.

For the first time in this Banana Skin series we decided to test the perception of this risk. At No. 19, it was not seen as urgent, though the question did prompt respondents to identify their concerns.

Terrorism, the war in the Ukraine, strains in east-west relations, are all seen as potential triggers for constraints on cross-border business. A UK reinsurer's top concern was "geo-politics and the impact on the wider economy from attempts to reduce globalisation and increased protectionism." Trade sanctions pose another threat.

Many respondents were concerned that national authorities would use international tensions as a pretext to re-nationalise regulation. There was a particular concern in the EU that attempts were being made by various countries (Spain and Italy were mentioned) to undermine the commitment to freedom of services.

The business impact of these developments potentially includes the loss of marine, aviation and trade insurance, fragmentation of international investment and capital markets, and reduced expansion prospects. International conflict is also likely to increase political violence and man-made catastrophe claims. The reinsurance sector ranked this highest, at No. 9.

A large part of the insurance industry, however, operates only in its home market, and here a number of respondents saw de-globalisation as a potential benefit, leading to on-shoring of insurance services, reductions in foreign competition and opting out of international insurance regulation. A Canadian P&C insurer said: "There will be a re-alignment of trade blocks, but in some cases this 'domestication' could bolster local growth and be beneficial."

"A risk for global insurance companies, but an opportunity for local insurance companies."
Chief Actuary, P&C insurer, Netherlands

20. Capital availability (19)

Score: 2.92 (2.88)

With capital in surplus over the recent period, its availability has not been a problem for the insurance sector, rather the opposite; the surplus has contributed to a soft market. Now that the market is hardening and interest rates are rising, respondents see a mixed outlook. Some expect that claims inflation and the rise in lapse rates will put pressure on capital and reduce capacity. Others expect a harder market to attract new capital.

A respondent from Malta said: "Excess capital could become a problem with the better pricing environment, and whilst the run-off sector appears to be currently going through a period of adjustment with several players struggling, pricing is always a challenge in this market with lowest price winning."

The reinsurance sector was expected to be under particular pressure due to the rise in global warming and catastrophe claims: it placed this risk at No. 12, the highest of the sectors. EeLain Ong, CFO of Thomas Miller TT Club Insurance in the UK, said: "As premium rates continue to harden in response to rising inflation adversely ballooning claim payouts, a continuous stream of new entrants will be enticed to participate in the reinsurance capital space, mainly via insurance-linked securities and sidecars."

Some respondents argued that the risk was not so much the availability of capital as the efficient management of it, which one said "is already a strong differentiator amidst insurers".

However, the low position of this risk suggests an industry that is reasonably comfortable with the capital outlook. The CFO of a reinsurer in the Netherlands, said: “I see a lot of capital interested in the sector and its low correlation to other market risks”. A UK CFO on the P&C side of the industry said: “For too long there has been excess capital supply, which has served to lengthen the soft market. A bit of capital scarcity would be a good thing and maybe [bring about] a flight to quality.”

21. Quality of management (21)

Score: 2.86 (2.76)

Though it is the highest ranked of our Banana Skins related to governance, the risk that insurance companies will be harmed by poor business practices and risk management – once a staple in the top ten – finishes well down the table. Does that signify persistent improvements in this area, or a touch of complacency? According to our responses, perhaps both.

Emmanuel Michiels, chief risk officer at Belfius Insurance in Belgium, said: “Stringent regulation and supervision in Europe with fit and proper rules and good risk practices promote higher standards of quality in the management”. In Japan, the chief risk officer of a life insurer observed: “Life insurers’ risk management practices are in general sound and advanced, partly driven by strict regulations”, while a CFO in the Netherlands said that: “There will always be outliers but ‘fit and proper’ testing is well embedded”.

Yet concerns were raised, in particular about insurers’ procedures for managing uncertain and longer term risks. The CEO of a life insurer in India said: “Life Insurance is a long-term business. Unhealthy competition and chasing short term strategies which puts current growth ahead of prudent risk management and sustainability is an issue”.

The director of an insurance broker in Nigeria warned that: “Most insurers do have risk management plans to meet unforeseen situations, but are just reacting to issues as they arise. There is need for simulations to prepare for unforeseen future occurrence by putting plans in place to mitigate them. It is surprising that not much was learnt from the pandemic.”

22. Business conduct (22)

Score: 2.83 (2.74)

The risk that insurers will incur losses as a result of poor sales and business practices ranked No. 4 in this survey ten years ago, but is seen to have dropped sharply since.

The primary reason for the low levels of concern in the comments we received is that regulation and oversight in this area is now seen to be stringent. “Regulatory changes over the past decade have changed the landscape here”, noted one P&C insurance respondent in New Zealand. The chief of technology at an Australian

underwriter saw "low risk particularly in life [insurance] because of significant regulation in this space". A respondent in Kenya observed that: "IFRS 17 brings in the discipline that mitigates against this risk".

Respondents who rated this risk higher warned that failures in this area, even isolated cases, could damage trust in the industry. One said that: "A poor customer journey will result in lost business, and can destroy an insurer's branding"; another that: "Retail insurers always have a risk of mis-selling… Start-ups need to strengthen." A chief risk officer in Bermuda said a risk was insurers "not providing cover in some areas, leaving populations uninsured".

John Smith, senior consulting actuary at Fidelity Life Assurance Company Limited in New Zealand, said there was "Less risk for on-sale business. However, remediation of legacy products (judged by today's standards) could be significant".

23. Corporate governance (23)

Score: 2.68 (2.58)

The bottom risk in this survey two years ago, the risk that weakness at board level will lead to poor oversight and control of insurance companies again attracted little attention.

"The control of supervisory authorities is strict, so weaknesses are quickly discovered", said the managing director at a non-life insurer in Belgium. Other respondents observed that while individual companies have suffered notable lapses in governance, the industry as a whole fares well compared, for example, to banking.

"There is a reverse risk where directors are so paranoid about being held liable for problems that they over-control things and drive unnecessary activity", said the chief risk officer at a composite insurer in New Zealand.

However, some respondents worried that boards were out of touch with conditions on the ground. From the insurance broking sector, a managing director described "a real struggle for Boards to understand the market and what clients are experiencing". A departmental CEO at an Australian reinsurer said that: "The risk is more a lack of understanding of complex products and industry patterns as opposed to poor oversight/control". In the UK, a broking respondent wondered: "Measurement is high, but are the things being measured the most important items?".

24. Post-Covid effects (-)

Score: 2.30 (-)

A Banana Skin introduced in our survey for the first time this year, the risk that the industry will be damaged by long-term Covid effects was bottom of the rankings by a considerable distance – placing last in every sector we covered.

But respondents are giving this thought, and some saw it as a more severe threat. Riaan van Reenen, CEO of Discovery Life in South Africa, warned of: “Increased volatility from claims events driven for example by the lingering effects of long Covid-19 on Life, Critical Illness and Disability insurance”. The CRO of a health insurer in the UK saw: “Public sector waiting lists driving move to private hospitals, and a growth in members and claims for health insurers.” Others worried about a future pandemic – for example, related to a bird flu outbreak – and the effects of a potential second wave of restrictions on the global economy.

The wider perspective, however, was that the insurance industry had adapted to what one respondent called a “new normal”. One view was that the industry had emerged even stronger from the pandemic, becoming more innovative and risk aware.

There was disagreement around the efficacy of remote working arrangements resulting from the pandemic, but respondents broadly agreed that the trend is unlikely to be reversed. “Work from home policies will save money on rentals and even bring a positive impact to insurance companies”, said the chief operating officer of a composite insurer in Hong Kong. The CFO of a run-off insurer noted that technology had shown that remote working can be accommodated, but that the “risk is for more junior and inexperienced staff in loss of training and on-the-job learning”.

> Locally in Hong Kong, the transition to a post-Covid market (or back to a pre-Covid position) will be disruptive to profitability and, possibly, to revenues too. The risk that rates will drop to reflect Covid-levels loss experience, at the same time as that loss experience returns to normal levels, is already being seen. This could be classed as an insurance cycle risk, though not of the typical capital-related nature.
>
> **Nicholas Ball, CFO, MSIG, Hong Kong**

Insurance Banana Skins: The Top Ten since 2013

	2013		2015		2017
1	Regulation	1	Regulation	1	Change management
2	Investment performance	2	Macro-economy	2	Cyber risk
3	Macro-economy	3	Interest rates	3	Technology
4	Business practices	4	Cyber risk	4	Interest rates
5	Natural catastrophes	5	Investment performance	5	Investment performance
6	Guaranteed products	6	Change management	6	Regulation
7	Quality of risk management	7	Guaranteed products	7	Macro-economy
8	Quality of management	8	Distribution channels	8	Competition
9	Long tail liabilities	9	Natural catastrophes	9	Human talent
10	Political interference	10	Quality of risk management	10	Guaranteed products

	2019		2021		2023
1	Technology	1	Crime	1	Cyber crime
2	Cyber risk	2	Regulation	2	Regulation
3	Change management	3	Technology	3	Climate change
4	Regulation	4	Climate change	4	Technology
5	Investment performance	5	Interest rates	5	Human talent
6	Climate change	6	Human talent	6	Macro-economy
7	Competition	7	Change management	7	Artificial intelligence
8	Human talent	8	Competition	8	Interest rates
9	Macro-economy	9	Investment performance	9	Cost reduction
10	Interest rates	10	Macro-economy	10	Change management

Some risks come and go, some are hardy perennials, as this chart of the Top Ten Banana Skins since 2013 shows.

The past two surveys have revealed that the most pressing concern for insurers is cyber crime, as attacks become more sophisticated and frequent, threatening business disruption and data theft. The industry also clearly has a broader focus on technology – the need to modernise internal IT systems and business models – though its ability to compete with new-tech savvy players may be improving. The risk from generative AI ranks high on its introduction to the survey, and is surely one to watch.

The risk posed by climate change has risen sharply over the past few of surveys. On the non-life side of the industry, it now ranks up top, and is 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 – has risen into the top cluster of risks.

Regulation continues to rank high up the list as insurers grapple with its volume and cost. And concerns about the macroeconomic environment, which had receded somewhat in recent surveys, are making their way back up, exacerbated by weak economic growth with high inflation. Post-Covid effects, however, do not cause the industry much anxiety.

Among governance risks, the quality of management and boards started high but have gradually fallen down the list, and are now 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 crisis, but has since seen improvements.

Appendix: The questionnaire

Insurance Banana Skins 2023
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 movements in interest rates.
3. Credit risk: The risk that counterparties will fail to perform or default.
4. De-globalisation: The risk to cross border trade within the insurance market as a result of growing conflict, protectionism, and a general deterioration in the geo-political environment.
5. Post-Covid effects: The risk that the industry will be damaged by long-term Covid effects, e.g., on pricing, work practices, product design.

Public environment

6. Political risk: The risk of political pressure on the management of insurance companies.
7. Regulation: The risk of excessive or inappropriate regulation.
8. Reputation: The risk of adverse perception or lack of public trust.
9. 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

10. Change management: The risk that insurers will be damaged by inadequate responses to changes in markets, products, customer demands, distribution, etc.
11. Capital availability: The risk that capital scarcity could impact business plans or that excess capital could depress prices and profitability.
12. Investment performance: The risk that insurers will be harmed by poor investment performance.
13. Cost reduction: The risk that insurers will fail to achieve the necessary cost reductions to remain competitive.
14. Technology: The risk that insurers will fail to keep up with technological change such as digital business models, customer capabilities and interfaces.
15. Artificial Intelligence (AI): The misuse of Generative AI, or the lack of appropriate oversight and governance of the use of Generative AI.
16. Competition: The risk that insurers will fail to meet the challenge from disruptive competitors such as Insurtech companies.
17. Products: The risk that insurance products may cause losses through inadequate design, e.g., products with guaranteed returns or products with unclear or excessive exposures.
18. Human talent: The risk that insurers will have difficulty attracting and retaining talent, in particular taking into account post Covid work expectations.
19. Cyber crime: The risk to insurers' operations from cyber crime.
20. Security risk: The risk that new operating models, for example remote working, will open up security risks for insurers.
21. Climate change: The risk to the insurance industry's profitability and operations from climate change, (including operational, asset and underwriting risk).

Governance

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