Risks facing insurance sector

LONDON, UK: Wave of new regulation tops insurance sector risks - 'Banana Skins' poll pinpoints key concerns for insurers. The greatest risk facing the insurance industry is the raft of new regulations being introduced simultaneously at international and local levels, according to a new survey which ranks insurance sector risk.

The CSFI's latest Insurance Banana Skins survey, conducted in association with PwC, says that new rules governing issues such as solvency and market conduct could swamp the industry with costs and compliance problems. It could also distract management from the more urgent task of running profitable businesses at a time when the industry is already under stress.

The survey polled nearly 500 insurance practitioners and industry observers in 40 countries to find out where they saw the greatest risks over the next 2-3 years. Regulation emerged a clear leader in all major markets, including North America, Europe, Middle East/Asia and the Far East/Pacific.

New international reporting standards

The EU's Solvency II Directive, due for implementation by the end of this year, was the focus of strongest concern. But the survey also identified new international reporting standards, the UK's review of retail distribution practices and other tax and regulatory initiatives as swelling a heavy agenda.

Other high-ranking concerns revealed by the survey include the availability of capital to meet tougher regulatory requirements, and the uncertain state of the world economy and financial markets. These are adding to the pressures on an industry which is being squeezed by low interest rates and intense competition.

A strong riser in this year's ranking of 26 risks was the incidence of natural catastrophes, a reaction to recent disasters in New Zealand and Japan. Also rising strongly is political risk, a consequence of events in the Arab world, plus growing concerns about the solvency of eurozone countries. A new entrant is the shortage of talent which emerged as a major issue in all regions.

Some risks less urgent

On the other hand, a number of risks have fallen in urgency, among them the use of complex instruments which created difficulties for insurance companies during the financial crisis. The industry's capacity to manage risk is also seen to have improved.

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

David Lascelles, survey editor, said: "These results show an industry which is being pressed on many sides at once, and will need skilled management to get through. It is not clear whether new regulation is helping or hindering it."

David Law, global insurance leader at PwC, said: "Insurers' attention has clearly changed with much more focus on how to deal with the increasing regulation they face. This is potentially distracting key resources and talent away from opportunities to grow their business. To gain a competitive advantage, insurers need to move the regulatory burden away from a box-ticking exercise to something that is embedded in the business and used to manage the changing risk profile. All this is set against a challenging backdrop of increased natural catastrophes, low interest rates and uncertain world economy."

Mark Stephen, UK insurance leader at PwC, said: "It is encouraging that talent is now being recognised as one of the top risks. Leading insurers have been focusing on this and now it's clear that the industry as a whole has woken up to the very real need to nurture its talent and recruit from outside. The issue is particularly acute in London as the flood of new regulation has swallowed up key talent and highlighted the industry's severe skills shortage."

A sector breakdown shows the life industry specifically concerned about the impact of low interest rates on investment performance, and the task of managing complex and competitive retail distribution networks. On the non-life side, the main concerns are with excess capacity and competitive pricing, along with the impact of surging catastrophe claims. Concerns in the reinsurance sector are mainly with the security of capacity in a highly competitive market.