

Reinsurers rank their top risks

Reinsurance Banana Skins Survey 2023



The London Institute
of Banking & Finance

CSFI
Centre for the Study of
Financial Innovation

Introduction

No time to stand still

Welcome to Reinsurance Banana Skins 2023, a unique survey of the risks facing the industry, which has been produced by the CFSI in association with PwC.

Climate change is the number one risk once again as reinsurers bear the brunt of the cost of catastrophe claims from an ever-increasing number of extreme weather events. As these losses spiral upwards, the survey highlights growing concerns that some areas and types of business could become uninsurable.

The other big risks at the top of the boardroom agenda centre on **technology** and, more specifically, **cyber crime** and **artificial intelligence (AI)**.

Related concerns are on whether reinsurers have the skilled people they need to keep pace with this fast-shifting risk environment, with the difficulties of attracting and retaining **talent** again making the banana skin top five.

When we compare reinsurers with other insurance industry segments, a number of interesting findings emerge. Reinsurance is the only segment to place **de-globalisation** in their top ten risks, a likely reflection of the global nature of their operations and concerns over protectionism. They are also more concerned about the availability of capital and credit risk.

“From climatic instability to generative AI, reinsurers are not only grappling with the volatility of today’s risks, but also the velocity of change. How the industry responds is both a decisive test of purpose and relevance and a once-in-a-generation opportunity to drive innovation and growth.”

Jim Bichard, PwC Global Insurance Leader

Top 10 risks

(2021 ranking in brackets) * New risk for 2023

	All insurance sectors	Reinsurance
1	Cyber crime (1)	Climate change (1)
2	Regulation (2)	Cyber crime (3)
3	Climate change (4)	Technology (4)
4	Technology (3)	Human talent (5)
5	Human talent (6)	Regulation (2)
6	Macro-economy (10)	Artificial Intelligence (*-)
7	Artificial Intelligence (-)	Macro-economy (16)
8	Interest rates (5)	Political risk (8)
9	Cost reduction (12)	De-globalisation (*-)
10	Change management (7)	Social change (12)

About the survey

The survey was conducted May-August 2023. It is based on 589 responses globally, including 41 respondents from the reinsurance sector.

For more analysis, insights and full list of industry risks see [CSFI's Insurance Banana Skins 2023](#), in association with PwC


Risk spotlight: Climate change

As losses from floods, wildfires and other high severity events mount, our respondents raise worrying questions over the insurability of some geographical areas and types of risk.

Further concerns centre on the transition to net zero, especially if uncertainty or insufficient action now lead to a disorderly transition ahead.

But with the risks come opportunities for reinsurers to support exposed communities and develop innovative new protection products.

They can also help businesses to understand and alleviate the risks of green transition by providing both specialist expertise and capital underpinning to move this forward.




“If the loss cost continues to rise and insurance pricing cannot keep pace then this [climate change] will be a huge issue in the coming years.”

**Reinsurer CEO respondent,
Singapore**

“The main concern to me is the impact of climate change and the pressure that will bring on the insurability of some risks/regions.”

**Reinsurer respondent,
Belgium**



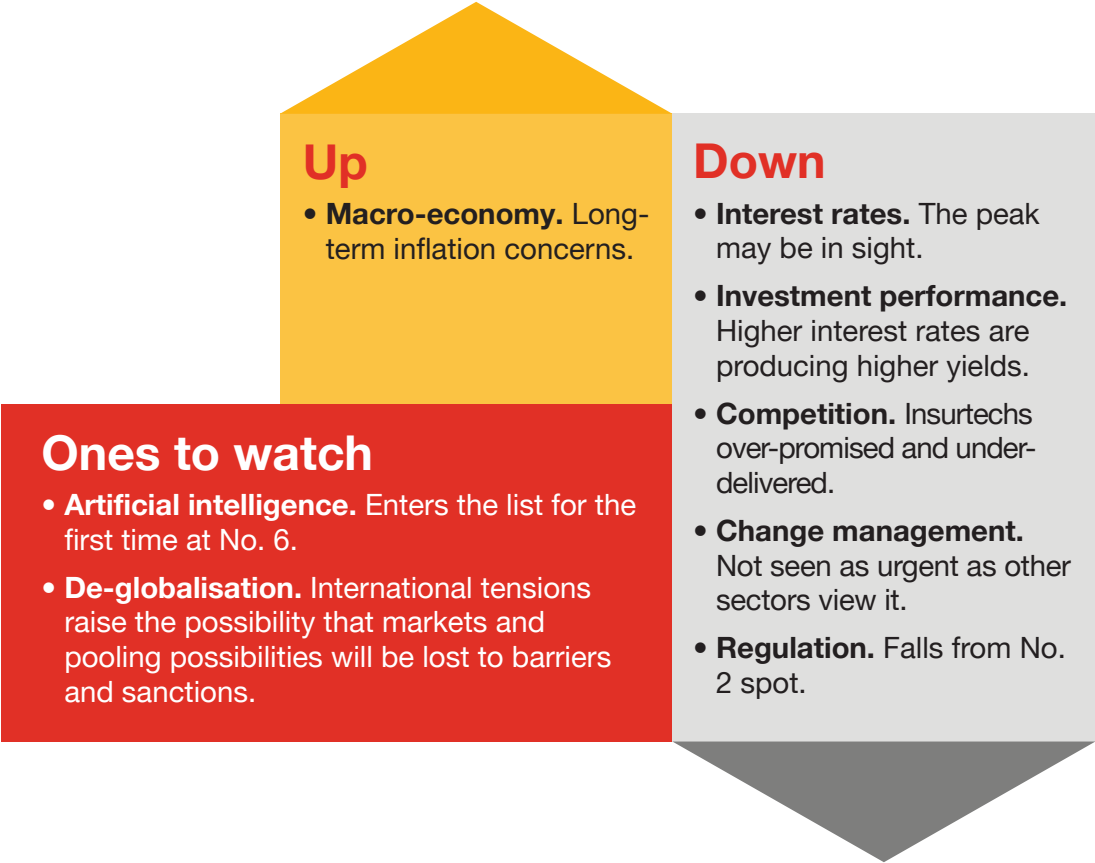
“In a world with increasing climate volatility, the way we respond to events to help customers recover as well as containing and controlling losses will become even more important in the overall insurance value proposition.”

Russell Higginbotham, CEO of Swiss Re Reinsurance Solutions

“Natural catastrophe risk assessment that is traditionally rooted in the past will be highly inadequate to measure/quantify the likely impact of climate change. To accurately price impact on physical risk, the (re)insurance industry needs to incorporate risk trends in a forward-looking manner and make sure the impacts of climate change are fully captured in their risk models.”

Anil Vasagiri, Head of Property Solutions, Swiss Re Reinsurance Solutions

Reinsurance: Main points of difference



Reinsurance: Big movers. The main changes in the rankings highlight growing risks, and those which appear to be receding.



(Places higher or lower than all insurance sectors)

Risk spotlight: Cyber crime and artificial intelligence


The risk of cyberattack shows no sign of easing as both the sophistication of perpetrators and threat from state sponsors increase.

In turn, AI has moved into the banana skin list for the first time. Concerns don't just centre on the accelerating pace of development, but also the reliability of the data and how it's used.

The link with cyber crime includes the growing use of AI to penetrate defences and mimic

real people. Further threats highlighted in the interviews include the systemic risk of multiple investors relying on the same black box data in their decisions.

But like cyber crime, reinsurers are ideally placed to develop the risk understanding and working partnerships with leading developers needed to manage and mitigate AI risk.



“A lack of regulation and transparency around the ‘black box’ in the middle [of AI models] could potentially lead to manipulation of outputs.”


**Insurance CRO respondent,
Bermuda**

Risk spotlight: Talent and technology

Reinsurers recognise the need for new and enhanced capabilities to manage today's evolving and escalating risks.

But as the high-risk rankings for technology and talent highlight, systems and skills can still fall short.

The barriers to progress cited by respondents include conservative distribution channels and regulatory hurdles. It is also clear that there are practical difficulties in developing and delivering clear and strategically-aligned target operating models.



“Traditional skill sets of staff and culture of insurance companies definitely slow down their ability to create or adapt to change in the digital sector.”

Reinsurer respondent, Australia



“Inflation, both real and social, continues to impact losses to our industry.”

Respondent - Greg Hendrick, CEO of Vantage in Bermuda

Preparedness

When we asked reinsurers about how prepared they are to handle the risks they face, they are the most confident of all the segments in the insurance industry – 3.41 on a scale of 1 poorly to 5 well-prepared, compared to 3.2 for the industry as a whole (composite 3.38, life 3.14 and P&C/non-life 3.13).

This confidence reflects the relative sophistication of reinsurers’ risk management systems and scenario planning.

But the speed at which the risk environment is evolving and new threats are emerging leaves no room for complacency.

Five key actions for leaders

Drawing on the findings from the banana skins survey and our close work with reinsurers and their clients, we believe there are five key priorities for keeping on top of the risks and sustaining commercial relevance ahead:

1

Reach out

Strengthen links with insured businesses and communities to understand how the risks they face are changing and develop the innovative solutions to help them keep pace.

2

Embrace the latest advances

Developments such as generative AI and use of unstructured data come with risks. But they also offer a way to make sense of today's profusion of data and close information gaps in critical areas such as climate vulnerability.

3

Harness innovation to support vulnerable communities

The communities most exposed to climate change are often the least protected. Harnessing innovations ranging from remote risk assessment to parametric cover can offer viable but affordable coverage.

4

Come together

From cyber to climate change, no company – reinsurers included – can deal with all the challenges on their own. It's important for reinsurers to pool their collective risk expertise and collaborate on solutions ahead.

5

Engage and inspire your people

PwC's Global Workforce Hopes and Fears Survey 2023 finds one quarter of employees say it is likely they will change jobs in the next 12 months, *up* from 19% last year. Map out your workforce of the future and consider, what is the "deal" you're offering your people?



“The reinsurers out in front are developing the innovative, data-driven solutions needed to manage today’s complex economic, geopolitical and technological threats and help businesses create the risk management underpinning for a successful transition to net zero.”

Andy Moore, London Market Insurance Leader, PwC UK

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