

# *CSFI/PwC Insurance Banana Skins Australia 2015*



'Cyber risk' has been ranked the top risk concern facing Australian insurers over the next 2-3 years in the CSFI/PwC 2015 Insurance Banana Skins. Insurance Banana Skins is a global survey which identifies the key risks facing the insurance industry and is conducted every two years by the Centre for the Study of Financial Innovation. The 2015 survey had 806 respondents from 54 countries, including 28 from Australia.

Significantly, while 'Regulation' remained the highest ranked risk globally (for the third survey in a row) in Australia 'Regulation' fell to 16th. This is a significant fall from the top position in 2013 when LAGIC was being implemented in the life and general insurance industries.

Instead, the response from Australia was dominated by concerns around technology: cyber risk; distribution channels; change management; and product development all ranked among the top seven Banana Skins. One respondent described cyber-attacks as: "A major threat. We repel more than 20 serious attacks every day". Others bemoaned a lack of innovation in the industry, from not taking advantage of new ways

to reach customers – "a great loss of business and business opportunities" – to an inability to adapt products that are "way too complex and misunderstood [and need to be] better linked to lifestyle and personal circumstances".

The pace of change is creating anxiety about whether existing business models can remain viable. A widely reflected point was that: "Consumer preferences will be shifting rapidly, making it difficult to retain consumers in an environment of slower growth". There was a particular focus on the healthcare sector and demographic change. One respondent said: "Fundamentally, the current funding structures within the Australian health

industry are not sustainable. What is more concerning is the fact that any attempt to reform the system is politically very difficult".

In contrast, Australian respondents were more confident about risks which were ranked high globally such as regulation, investment performance and interest rates, which were generally seen as manageable. On the risk around investment performance, one respondent said: "Most insurers are conservatively invested. Most appear to be short in bonds to minimise losses when (if) rates rise". Governance risks such as the quality of management and risks management were also seen as lower-order concerns.

*For further insights please speak with your PwC representative or contact:*

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## Notable differences between the Australian and the global responses included:

### Higher concerns

- **Cyber risk, distribution channels, change management, product development:** “Rapid pace of change and disruptive innovations will lead to drastic changes in the market place”
- **Political interference:** “Government intervention into catastrophe risk is potentially problematic”
- **Human talent:** “Market needs to be more dynamic and multidisciplinary”.

### Lower concerns

- **Regulation:** “We have seen increased regulation and capital requirements many times before and there has been little detriment to the industry”
  - **Interest rates, guaranteed products:** Seen as less of a problem in Australia than elsewhere.
- Australia scored above average on the Banana Skins Index, implying a higher level of risk anxiety relative to respondents from other countries. It scored above average on the Preparedness Index, implying a higher level of risk preparedness.

## The Insurance Banana Skins 2015

| World |                            |      |      |
|-------|----------------------------|------|------|
| 2015  | Banana Skin                | 2013 | 2011 |
| 1     | Regulation                 | 1    | 1    |
| 2     | Macro-economy              | 3    | 3    |
| 3     | Interest rates             | -    | 10   |
| 4     | Cyber risk                 | 22   | 22   |
| 5     | Investment performance     | 2    | 4    |
| 6     | Change management          | 15   | -    |
| 7     | Guaranteed products        | 6    | -    |
| 8     | Distribution channels      | 11   | 9    |
| 9     | Natural catastrophes       | 5    | 5    |
| 10    | Quality of risk management | 7    | 15   |
| 11    | Business practices         | 4    | -    |
| 12    | Quality of management      | 8    | 14   |
| 13    | Market conditions          | -    | -    |
| 14    | Long tail liabilities      | 9    | 7    |
| 15    | Human talent               | 19   | 6    |
| 16    | Political interference     | 10   | 11   |
| 17    | Product development        | 20   | -    |
| 18    | Reputation                 | 14   | 16   |
| 19    | Climate change             | 18   | 20   |
| 20    | Social change              | 21   | -    |
| 21    | Corporate governance       | 17   | 8    |
| 22    | Capital availability       | 16   | 2    |
| 23    | Terrorism                  | 27   | -    |
| 24    | Pollution/contamination    | 26   | -    |
| 25    | Complex instruments        | 23   | 19   |

| Australia |                            |      |      |
|-----------|----------------------------|------|------|
| 2015      | Banana Skin                | 2013 | 2011 |
| 1         | Cyber risk                 | 13   | 19   |
| 2         | Macro-economy              | 5    | 7    |
| 3         | Distribution channels      | 3    | 9    |
| 4         | Business practices         | 9    | -    |
| 5         | Political interference     | 2    | 10   |
| 6         | Change management          | 7    | -    |
| 7         | Product development        | 20   | -    |
| 8         | Human talent               | 21   | 5    |
| 9         | Long tail liabilities      | 8    | 15   |
| 10        | Reputation                 | 14   | 6    |
| 11        | Interest rates             | -    | 20   |
| 12        | Climate change             | 19   | -    |
| 13        | Social change              | 12   | -    |
| 14        | Market conditions          | -    | -    |
| 15        | Natural catastrophes       | 11   | 3    |
| 16        | Regulation                 | 1    | 2    |
| 17        | Investment performance     | 4    | 4    |
| 18        | Quality of risk management | 15   | 17   |
| 19        | Quality of management      | 17   | 8    |
| 20        | Guaranteed products        | 22   | -    |
| 21        | Pollution/contamination    | 26   | -    |
| 22        | Terrorism                  | 27   | -    |
| 23        | Corporate governance       | 24   | 14   |
| 24        | Capital availability       | 23   | 1    |
| 25        | Complex instruments        | 25   | -    |

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