

DIFFERENT SIDES OF THE SAME COIN

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CSFI and Pricewaterhouse Coopers' *Insurance Banana Skins 2007 Survey* offers some interesting insight to risks facing the insurance industry (see October 2007 p6 – 8 COVER lead story and Technology comment in November 2007 p37). Not surprisingly, the risks are very similar regardless of the geographical market. However, they do vary quite significantly (in terms of importance rather than type) from brokers' and insurers' respective viewpoints.

The Report is based on 139 responses from senior industry executives and directors in 21 countries, including South Africa. 35% of respondents were from the short-term (or property and casualty, as it is known internationally) sector; 34% from the life industry; and 6% were brokers. Essentially, the Report identifies and rates a list of 'banana skins', or issues that can cause the industry to 'slip' going forward.

Over-regulation the risk

Across the board, respondents agree that the burden of too much regulation is the single greatest risk currently facing the global in-



urance industry. The growing number of new laws and regulations is: "piling costs, stretching resources and diverting management from running the business".

While the ART industry is not singled out in the survey it is worth mentioning that for the vibrant alternative risk transfer (ART) industry there is an additional regulatory challenge in that its offerings do not always fit within the traditional regulatory 'box', and management must invest valuable time lobbying and liaising with regulators.

From brokers' perspectives the top three risks are the quality of

insurers' management, the trend towards using more complex instruments and how insurers manage the underwriting cycle. For this group, over regulation did not even make the top ten risks (coming in at 13th).

Life and Property & Casualty

Life insurers worried most about over regulation, rating it as the number one concern; followed by the high cost of distribution channels and the threat of new web-based selling channels to traditional markets.

Property and casualty insurers pinpointed their major sources of loss: natural catastrophes and climate change as their first and second most worrying risks. Third on their list is managing the underwriting cycle, with too much regulation coming in fourth.

Concerns about insurers' management quality makes it into the top 10 lists of short-term, life and broking respondents. In the South African market the issue of management quality is particularly relevant, as it becomes increasingly difficult to attract and retain skills. The shortage of skills is exacerbated by rising emigration and insufficient training and development within the industry itself. Add to this the growing burdens of legislation and compliance which diverts managements' attention away from the business and the local industry finds itself facing a very real risk that needs an urgent response. ♦