

News release

For immediate release

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Impact of financial crisis poses greatest threat to insurance industry

Ernst & Young report highlights top 10 risks for insurers

SINGAPORE, 23 JUNE 2009 – The impact of the financial crisis is the most significant risk facing the insurance industry, according to a new report by Ernst & Young. In the *Second annual business risk report – insurance 2009*, model risk and regulatory intervention rank second and third among the top ten risks.

“As a result of the current economic conditions, there have been significant changes in the risks since the release of our 2008 report,” says Peter R. Porrino, Global Director of Insurance in Ernst & Young’s Global Insurance Center. “As insurance companies continue to navigate their way through this downturn, they should be focusing on changing their approach to risk management, regulatory analysis and the communication of risk information.”

The report identifies the top 10 business risks faced by the industry as ranked by more than 100 leading sector analysts. The top ten risks this year are:

1. **Financial market crisis:** the crisis has severely battered the financial services industry. Even if systemic risk abates, the consequences have been so profound that they are likely to shape the industry for the next decade.
2. **Model risk:** the failure to recognize the shortcomings of models and to adequately capture the nature of risk have left some companies unprepared for the depth of recent financial events.
3. **Regulatory intervention:** organizations must prepare for the sweeping changes around Solvency II, the convergence with IFRS accounting principles and the ongoing debate of federal and state regulation in the US.
4. **Managing the non-life underwriting cycle:** mismanaging the cycle is arguably the number one cause of insolvency in the non-life insurance industry and the number one contributor to losses in stakeholder value.
5. **Geopolitical shocks:** greater risk of geopolitical shocks is heightened by the economic slowdown, as falling incomes generate political pressures and collapsing tax revenues threaten governments’ capacity to respond.

6. **Demographic shifts in core markets:** consumer focus on savings products increases the insurance industry's need to strategically manage capital risk, including exposure to equity markets.
7. **Emerging markets:** while proving to be an area of expansion for large diversified insurers, emerging markets are more susceptible to rapid and unexpected deterioration.
8. **Channel distribution:** even with current market conditions and an increasing focus on expense reduction, there are still significant opportunities and risks in investing in multi-distribution strategies.
9. **Legal risks:** unexpected changes in both the forms and sources of liability continue to be one of the greatest challenges facing non-life insurance companies.
10. **Climate change and catastrophic events:** extreme events are major strategic risks for the industry and have far-reaching implications for insurers paying the price for the escalating costs of rising catastrophic losses.

While much of the downside risk may have already occurred, the current market turbulence still poses an immediate threat. "In this environment, it is essential that insurance companies address product innovation, changing regulation, investment strategies and capital requirements to help retain earning power and maintain agency ratings. This will help to serve as a starting point for discussions among leadership so that their near- and long-term business strategies take these issues into account," Peter Porrino concludes. "While instability still prevails, opportunities abound for those companies that are able to rebuild and strengthen their businesses."

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