



Introduction

Welcome to the first edition of the ARM quarterly newsletter! We hope to make this publication valuable to you with several brief articles that provide unique insights, some ideas about how to address specific problems and introduce potential risks that may not yet be on your radar.

The primary authors will be Dave Ingram and Max Rudolph, along with a number of additional ARM consultants. We have been active participants in the risk management, actuarial, investment and insurance spaces for many years. We plan to share our experience and knowledge to assist executives from insurers of all sizes and specialties to make better decisions. We expect to present multiple perspectives on issues, but we will always tell you our opinion of the most compelling approach.

Those who become subscribers can suggest topics for articles and ask questions of the authors during our follow-up webinars and discussion sessions. We expect to conduct some surveys, as you see in this issue, as well as walk the reader through methods to think about issues and build out their capabilities to resolve those issues in the future. Ever cognizant of regulatory requirements, leveraging them in ways that add value to your company in practical ways will be our focus.

Published by Actuarial Risk Management (ARM), the Strategic and Risk Solutions for Executives (SRSE) subscription will consist of two paid tiers. The newsletter is free to all who are interested.

A webcast is available at either the company or individual level, and an offering that extends the general webcast to include a follow-up one-on-one discussion with the newsletter authors is also available.

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Ten Most Dangerous Risks for Insurers

These past two years have taken us all to school on the true extent of the power of natural risks. But things are slowly coming back and though we missed doing this survey last year, that is true of this Most Dangerous Risks for Insurers poll as well.

This year we had record participation with over 250 insurance professionals taking part. This is the fifth iteration of this poll and 2022 shows some consistency along with some very new risks. Inflation, Employee retention and Ability to hire new employees are three new risks to the top of this poll, but they should not be surprises.

These responses suggest that many managers see the insurance industry in the thick of the same societal and financial problems that are gripping all businesses. Workers are in revolt, but they are not protesting or organizing, they are simply leaving their current employer to seek out the right job and work/life balance for them.

So here is our list of the top ten Most Dangerous Risks to Insurers for 2022:

1. CYBERSECURITY AND CYBERCRIME

Previously ranked #1 and was a Top 5 risk all five years of this survey

Many insurers changed their policy wording to exclude or severely limit cyber exposure because they think of this as a very dangerous and unpredictable risk. Others started offering stand-alone cyber cover at least in part because it may be uncorrelated to other insurance lines. Some of that later group have experienced a spurt in claims that may have led them to also rate this the number one risk.

2. INFLATION

Up very sharply - Previously #52

Prices are rising faster than they have since the 1980s in most of the developed world. Insurers will be hit with a double whammy as the real value of invested assets decays and the cost of doing business and claims costs increases at the same time.

3. EMPLOYEE RETENTION

Not on the list previously

The Great Resignation makes the headlines. COVID seems to have accelerated the timeline for the inevitable wave of Boomer retirements. Also concerning are the numbers leaving due to health care burnout and caregiver responsibilities. The problem for insurers is figuring out how to respond to the massive loss of experience.

4. IT / SYSTEMS AND TECHNOLOGY GAP

Up Slightly from #5 last time and was a Top 5 risk all five years of this survey

The COVID driven move towards work from home has further illuminated the advantages for businesses that have mastered the technology to deal remotely with their current customers and to attract new customers through their tech platform. Insurers leveraged their business continuity plans to transition to work-from-home successfully.



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5. ABILITY TO HIRE NEW EMPLOYEES

Not on the list previously

This is the flip side of weak employee retention. With the pool of open positions exceeding the number of qualified candidates, more and more companies will be forced to start prying away experienced employees who were not in the market and so the cycle spirals on and on. Many workers are trying out the gig economy. If stimulus tightening leads to a recession those workers may re-enter the workforce for company jobs.

6. EMERGING RISKS

Up from #10

We are even more sure now after two years of not solving COVID that what we don't know can hurt us. Something out there that may or may not be on anyone's list could be the next big issue and we now are very willing to acknowledge that.

7. PRICING AND PRODUCT LINE PROFIT

Down from #3 and was a Top 5 risk all four prior years

Insurers writing Life and Annuity business as well as writers of long tailed Casualty business see problems coming with inflation and the resulting pressure on interest rates. The pandemic's focus on older ages and those with co-morbidities has limited the claims impact on life insurers, but new variants and long-COVID could have repercussions for disability and health lines.

8. LEGISLATIVE AND REGULATORY

Down from #4

Insurers are still struggling with some past changes such as Principles Based Reserving and Long-Duration Targeted Improvements and are worried about future changes especially related to alternative investments and Governance, Risk and Compliance regarding new disclosures, new regulations and new laws. All of these changes require technical staff expertise to resolve which is in short supply (see #3 and #5 above).



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9. RUNAWAY FREQUENCY OR SEVERITY OF CLAIMS

Up moderately from #19

Swiss Re estimates that 2021 had the fourth highest natural catastrophe claims since 1970. And Life insurers say that they are starting to see higher death claims driven by COVID, especially from Group Life Insurance. Claims from mental health, opioid and alcohol abuse have also risen during the pandemic.



10. PANDEMIC

Up sharply from #57 last time

Events of the past two years have shown that modern medicine has made tremendous advances in humankind's ability to respond to a Pandemic, but there is room for significant improvement. Much as we have seen in previous pandemics, behavioral responses have great impact on results. So far, insurers have not taken major losses from this Pandemic, but that is due more to luck than preparation.



Take a long look at your risk register. How do your top ten risks stack up against these ten? What is your thinking to support the differences?

This list is a good gut check. These risks are at the top of mind for at least 250 insurance executives. Can you afford to ignore any of them?

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