THE MOST DANGEROUS RISKS – 2024 EDITION

By Dave Ingram and Max Rudolph

The world in 2024 seems to be on the brink with wars and elections threatening to upend some longstanding regularities. The Dangerous Risks survey suggests that insurance industry concerns have shifted back to more traditional issues after several years of turmoil. Risks like Inflation, Ability to Hire and Employee Retention that were top concerns in the 2022 and 2023 survey have receded. For 2024, the top risks are all things that we have seen over and over for many years: Cyber, Profit, Strategy, IT and Claims.

Participation was down to about 150, after two years with over 200 participants, in the seventh year since 2017 that we have conducted this poll.

Ability to Hire dropped from 8th to 25th place and Employee Retention went from 5th to 27th, suggesting that both risks have substantially abated. IT / Systems & Technology Gap went from 6th to 4th place, reversing last year's move and finishing back in the top five for the sixth time in the seven-year life of this poll.

	2024	2023	2022	2020	2019
1	Cybersecurity and cybercrime	Inflation	Cybersecurity and cybercrime	Cybersecurity and cybercrime	Strategic direction and opportunities missed
2	Pricing and product line profit	Cybersecurity and cybercrime	Inflation	Disruptive technology	Cybersecurity and cybercrime
3	Strategic direction and opportunities missed	Global / National recession	Employee Retention	Pricing and product line profit	Pricing and product line profit
4	IT / Systems and technology gap	Interest rate changes	IT / Systems and technology gap	Legislative and regulatory	IT / Systems and technology gap
5	Runaway frequency or severity of claims	Employee Retention	Ability to hire new employees	IT / Systems and technology gap	Competition s

Top 10 Risks

1. **Cybersecurity and cybercrime** (Up from #2 last year and a Top 5 risk all seven years of this survey) Insurers had a bad year in 2023 with several large life insurers with pension businesses hit by MOVEit file transfer cyberattacks and health insurers experiencing a significant number of ransomware attacks. Insurers find themselves to be a prime target due to the extensive data that is collected in the application process. Cyber insurance writers continue to experience massive premium growth while insurers keep refining their underwriting, benefits, and requirements for active risk management of cyber risk. Meanwhile the SEC is now requiring prompt disclosure of cyber incidents and the increase of information about successful cyber-attacks makes things seem much worse.

2. **Pricing and product line profit** (Up from #10 in 2023 and a top 10 risk in all seven years) In 2022, earnings were off by 10% compared to 2021 for the entire insurance sector. Through mid-year 2023 aggregate earnings have taken another step downwards. Hence the concern about profitability. Claims continue to surprise and rate increases have not been enough to counteract. Higher interest rates can help with earnings if insurers can hold onto customers in this environment, but rates are likely to come down as inflation fears ease.

3. **Strategic Direction and Opportunities Missed** (Up from #9 last year) This was a top 5 risk pre-COVID in 2018 and 2019. Now that we have survived the pandemic, this risk has moved back into the top 5 because we are back to worrying about strategy again. People are expecting that new strategies are in order, but no one is sure what those changes need to be and they are not at all confident that anyone at their company knows either.

4. **IT / Systems and technology gap** (Up from #6 in 2023) This risk has been in the top 6 for all 7 years of our survey. In 2023, the rise of Artificial Intelligence into public prominence has added to the gap that most insurers see between their own IT capabilities and that of the best in class of their competitors. Now in addition to the cost and time constraints on resolving legacy issues, there is an immense talent/knowledge shortfall of people who understand both AI and insurance.

5. **Runaway frequency or severity of claims** (Up from #7 last year) Insurers have seen claims increases in both frequency and severity 2022 and 2023 in almost every line in almost every market. We cannot just point to a few mega storms. And though the inflation rate has abated in some markets, insurers are not sure that they have yet seen the full impact of the inflation that has already happened upon their claims reserves. The only bright spot has been the end of the excess mortality claims to life insurers from COVID. The fear is that these trends will continue for P&C and that new issues like long COVID, fentanyl and Ozempic side effects may drive mortality back up.

6. **Legislative and Regulatory** (Up from #14 in 2023) Regulators have signaled that they are developing sweeping new regulations for the insurance industry regarding AI, solvency standards, Climate disclosures, Long-Term Care, Consumer Protection, and fair access to Insurance. All this while much of the world is just starting to adapt to IFRS 17 changes. Each different change comes with its own implementation issues and uncertainty around unexpected consequences.

7. **Natural Catastrophe** (Up from #26 last year) Mother Nature found another way to create property insurance claims in 2023 with over $50 billion of losses from severe convective storms and hail in the U.S. alone. This makes 2023 another high year for Natural catastrophe claims without a major hurricane. This leads P&C insurers to infer that their business is even more risky than was previously thought.

8. **Emerging Risks** (Up from #19 in 2023) This is the ultimate indication that the survey participants see 2024 as uncertain. They see uncertainty in the levels of potential losses from several ongoing risks AND they see a significant chance that something unforeseen will create additional major losses.

9. **Reputation Risk** (Up from #20 last year) Businesses found in 2023 that reputations are more fragile than they ever thought. They can experience reputation issues with both sides of the political spectrum sometimes leaving only a narrow path somewhere in the middle to completely avoid issues. The biggest reputation related story of the year was the commercial that caused the downfall of the most popular beer brand. This is the first time that reputation risk made it to the top 10.

10. **Interest rate changes** (Down from #4 in 2022) Increases in interest rates drove market value losses in insurer investment portfolios but also decreased the current value of deferred payments to insureds in 2023. Life insurers saw steady improvement in profitability throughout the year along with increased demand for products that offer a higher interest return to policyholders and P & C companies saw earnings on their assets backing reserves and surplus rise for the first time in more than a decade. It is unclear whether respondents are worried about the risk of interest rates returning to near zero levels or the possibility that rates may spike up much further leading to high customer churn.

For further information about ARM's ERM services contact:

Dave Ingram, CERA, FRM, PRM	Max Rudolph, FSA, CERA, CFA
dingram@actrisk.com	mrudolph@actrisk.com
+1 914 350 0764	+1 402 630 9503

THE MOST DANGEROUS RISKS – 2024 EDITION

Largest Advances in Ranking

Geographic Concentration – Jumped from #47 to #11. This is related to Natural Catastrophe and Runaway Claims risks which each were in the top 10.

Terrorism – Up from #72 to #45. Survey respondents and their businesses may seem remote from terror attacks but the increase of both frequency and severity of attacks in 2023 drove this advance in rank.

Property Market/Commercial Mortgage Exposures- Rose from #51 to #28. Office properties remain underoccupied even with back-to-the-office movement. Refinance of commercial mortgages will happen gradually and will force a reckoning.

Major international armed conflict or war – From #33 to #13. With new armed conflicts in both 2022 and 2023, many fear that those may expand regionally or that new conflicts may arise in 2024.

Natural Catastrophe – Up from #26 to #7. Major losses without any major hurricanes from Severe Convective Storms signals that there are many ways to lose.

Fiscal and Monetary Policy – Up from #36 to #17. Debt levels in the developed world have skyrocketed with spending to offset pandemic effects on economies. Many expect a reckoning.

Third Party Services – From #42 to #23. The pendulum seems to be swinging away from maximal outsourcing as the preferred business operations strategy. Strategic partners are now seen as a potential risk and supply chains dependent upon a short list of lowest cost independent suppliers failed for many in the pandemic.

Largest Drops in Ranking

Inflation – Dropped from #1 to #19. The drop in inflation throughout 2023 in many countries led most survey respondents to downplay this risk.

Employee Retention – Fell from #5 to #27. Employee separations are down 28% in the past year in Financial Services according to the Department of Labor. That improvement drives this change in risk ranking.

Age of Employees and Distributors – Dropped from #25 to #47. Large numbers of pandemic era retirees have re-entered the workforce easing concerns about the abrupt loss of experienced people.

Ability to Hire New Employees – Down from #8 to #25. Total open positions have dropped by 28% in the past year in Financial Services. Positions have either been filled or restructured away.

Policyholder Behavior – Fell from #12 to #29. Insurers with interest sensitive products are usually the most concerned about this risk and hopes of falling interest rates reduce this concern.

Model Risk – Down from #16 to #33. Increasing confidence in models and controls on models. Beware of overconfidence here.

New Risk in 2024 – Artificial Intelligence – debuts at #24. Right in the middle of the pack. Only a few insurers have fully implemented AI assisted insurance processes and the early adopters are likely to be more optimistic.