2025 EDITION

EXECUTIVE PERSPECTIVES ON TOP RISKS

for the Near- and Long-Term

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Global Business Consulting

Cybersecurity, operational risks feature prominently for insurance industry

Insurers' executive teams face a complex web of uncertainties. From inflation pressure, interest rate risk and other macroeconomic factors to the looming impact of tariffs and geopolitical uncertainty, there are a myriad of issues that could lead to unexpected disruption and performance shortfalls. An ability to anticipate risks that may be on the horizon before they become imminent can help leaders navigate unfolding developments – particularly those that are uncontrollable – that may impact their organisation's value and growth objectives.

Our 13th annual **Executive Perspectives on Top Risks Survey** contains insights from 1,215 board members and C-suite executives around the world regarding their views on the top risks they see on the near- and long-term horizon. Specifically, our global respondent group provided their perspectives about the potential impact over the near-term (two to three years ahead) and long-term (over the next decade) of 32 risk issues across these three dimensions:

- **Macroeconomic risks (M)** likely to affect their organisation's growth opportunities
- **Strategic risks (S)** the organisation faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks (O)** that might affect key operations of the organisation in executing its strategy

Insurance industry insights

Results from the insurance industry reflect a higher level of concern about the risk environment than the general population of survey respondents. But insurers' concern levels declined significantly from previous years' surveys. Where the top concern last year earned a 6.42 score from insurance respondents, this year's score was just 3.67. For point of comparison, in 2023 and 2022, the top scores were 5.20 and 5.50, respectively.

Several reasons could explain why insurance companies would view the environment as riskier than companies in other sectors. One is the simple nature of the industry. Risk Management is inherent to the insurance industry and insurance companies have entire teams of actuaries, underwriters and analysts whose sole jobs are to quantify and price risk. The industry has been an early adopter of and become experts in deep data mining and modelling. Insurers now have access to more real-time data, predictive analytics and AI-powered modelling, which allow for better forecasting and pricing of risks.

This may explain why insurers in this year's survey were comparatively – judging by their overall score – less concerned than in prior years. Outside of data expertise, many insurers have rebuilt strong balance sheets and capital reserves post-COVID, giving them more confidence to underwrite risk without jeopardising solvency. Insurance rates – premiums – have also risen in recent years across many lines of insurance. With better pricing power, insurers have simply become more comfortable with the risk/reward trade-offs.

Analysis of top near-term risks

The top 10 near-term risks for the insurance industry are concentrated in the operational categories, though macroeconomic concerns also rank prominently. One operational risk, cyber threats, was ranked the top near-term risk by insurance industry respondents. In this, the insurance industry deviates from the general population of survey respondents, who ranked cyber threats second.

"Cyber insurance is notoriously difficult to price for insurers because it involves fast-changing, complex and systemic risks that are unlike traditional insurance categories and it is a risk that is escalating globally," says Shawn Seasongood, Managing Director in Protiviti's Insurance practice. "Rapidly-evolving threats like political wars and cyberattacks can hit multiple insureds at once, creating aggregation risk."

Operational concerns dominate top risks

Operational risks account for three of the insurance industry's top five near-term risks. The constant challenge of staying on top of the constantly-evolving cyber threat landscape is likely a contributing factor for including other operational risks – operations and legacy IT infrastructure unable to meet performance expectations (#3) and ensuring privacy and identity protection (#5).

"Cyber risk continues to be top of mind across industries and particularly in insurance," says Thomas Luick, Managing Director in Protiviti's Insurance practice. The increasing sophistication of cyber threats, including AI-enabled threats such as automated phishing campaigns and advanced malware, present a significant challenge for an industry that processes and stores massive amounts of sensitive information.

The challenge becomes more acute as security organisations deal with budget constraints and ongoing talent shortages. “Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges,” another operational category in Protiviti’s survey, was ranked ninth-most important short-term risk, with 38% of insurance industry respondents deeming it a ‘top’ risk.

“As cyber threats are increasingly deployed for the purpose of perpetrating fraud, some organisations are combining cyber, fraud, and privacy risk data into fusion centres to combat bad actors,” says Luick. These fusion centres leverage big data techniques to better understand threat actors’ tactics, respond faster to attacks and implement more effective measures to protect systems and customer data and prevent fraud.

Historically, the insurance industry has been a laggard in innovation and investment in emerging technology, Luick adds. “Technical debt,” the implied cost of future investments that are necessary due to choosing more expedient solutions in the past, and outdated systems and platforms “continue to be significant barriers to achieving the business agility, productivity gains, and five-star customer experience most insurers are striving to achieve.” To address these challenges, industry leaders will continue to invest in technology modernisation and AI to increase agility and productivity. Operationally, executing opportunities to enhance customer experience throughout the value chain and by optimising back office costs will continue to drive the agenda. Leaders will embrace an ecosystem approach and leverage partners to gain scalable access to talent in variable cost models that enable IT and operations to pivot quickly as customer expectations shift.”

“AI risk is having a growing and multifaceted impact on the insurance industry – both in terms of how insurers underwrite policies and manage claims, and how they assess their own exposure to emerging risks. For example, AI and Innovation by clients (e.g., autonomous vehicles, smart factories) can change risk exposure rapidly, requiring new underwriting models.”

– Thomas Luick, Protiviti Managing Director

Macroeconomic concerns feature prominently

Consistent with the population at large, insurers view economic conditions, including inflationary pressures, as a significant near-term risk. Another macroeconomic risk, changes in the interest rate environment (#4) is also a top 5 risk for insurers. The survey response population at large ranked this just 15th among near-term risks.

The concerns with interest rates are surely due to the nature of the industry. All insurers have to match their liabilities (claims) with appropriate assets, explains Seasongood. If interest rates fall, the income from investments may not be enough to cover long-term claims. If rates rise sharply, the value of previously purchased bonds drops, causing potential balance sheet losses. In addition, Whole Life and Annuity products are priced and sold based on expected interest rates.

Strategic risks

Among strategic topics, insurers view economic conditions, including inflationary pressures, as a significant near-term risk. Changes in the interest rate environment (#4) is also a top five risk for insurers. The survey response population at large ranked this just 15th among near-term risks.

Risk category	Top 10 near-term risk issues	Score*
O	**1.** Cyber threats	3.67
M	**2.** Economic conditions, including inflationary pressures	3.49
O	**3.** Operations and IT infrastructure unable to meet performance expectations	3.42
M	**4.** Change in current interest rate environment	3.36
O	**5.** Ensuring privacy and compliance with growing privacy and identity protection risks and expectations	3.36
S	**6.** Heightened regulatory change, uncertainty and scrutiny	3.31
S	**7.** Adoption of AI and other emerging technologies requiring new skills in short supply	3.27
S	**8.** Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	3.24
O	**9.** Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	3.22
O	**10.** Emergence of new risks from implementing artificial intelligence	3.18

*Respondents were asked to rate 32 individual risks on a five-point Likert scale, where 1 reflects "No Impact at All" and 5 reflects "Extensive Impact." For each of the 32 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact. Risks rated 3.11 or higher are deemed to be significant risks.

Long-term risks: Disruption, cybersecurity, talent retention

Insurers were more concerned with disruption than other survey respondents. “Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces” was ranked the top long-term strategic risk by insurance industry respondents, with 42% deeming it the most significant impact to their organisations over the coming 10 years. By contrast, the global population ranked this topic second-most significant, with just 30% choosing it as a top risk.

Similarly, AI and new industry entrants also featured prominently among long-term risks ranked by insurance industry respondents. “Adoption of AI and other emerging technologies requiring new skills in short supply” was chosen as a top risk by 31% while “Ease of entrance of new competitors or other changes in competitive environment” received a 22% weighting.

“The insurance industry has one of the oldest workforces among major sectors, and young college graduates are not attracted to the industry. AI is revolutionising everything, including underwriting, pricing, claims processing, fraud detection and customer service. However, the industry needs people who understand both insurance and data science/AI and that’s a rare combination. Without the right talent, insurers struggle to implement AI effectively or fully capitalise on its potential.

– Shawn Seasongood, Protiviti Managing Director

Cybersecurity was also prominent among long-term risks. Insurance industry respondents ranked “cyber threats” as the top operational risk for the next 10 years, with 38% deeming it the most significant risk. This was only slightly more than global respondents, 31% of whom rated cyber threats as the most significant risk.

Reducing cybersecurity risk to an acceptable level will be an ongoing challenge for all industries, but especially for data heavy industries such as insurance, says Luick. “The race to stay ahead of bad actors requires ongoing innovation and investment.” Leaders will invest in embedding AI and automation into cybersecurity processes and operations to maintain cost, improve analysis and accelerate responses to cyber events and outages. To ensure a lasting defence against cyber, fraud and privacy threats, security and fraud teams need to eliminate manual and time-consuming processes to prioritise the most critical threats. The aforementioned fusion centres are one leading practice to enable organisations to harness the power of threat intelligence, threat response, advanced orchestration and automation to stay ahead of increasingly sophisticated threats. This in turn will help realise collaboration, resiliency and threat visibility by providing a comprehensive 360-degree picture of the threat environment including malware, vulnerabilities, fraud, threat intel, and threat actors.

Insurers appear concerned about talent attraction and retention over the long term. “Talent and labour market availability” was the third-greatest long-term macroeconomic risk, with 29% deeming it a top risk. Likewise, among operational risks “ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges” was the third-greatest long-term risk.

Long-term risk outlook

Macroeconomic risk issues

Risk	Percentage
Change in current interest rate environment	38%
Economic conditions, including inflationary pressures	38%
Talent and labour availability	29%

Strategic risk issues

Risk	Percentage
Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	42%
Heightened regulatory change, uncertainty and scrutiny	33%
Adoption of AI and other emerging technologies requiring new skills in short supply	31%

Operational risk issues

Risk	Percentage
Cyber threats	38%
Third-party risks	27%
Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges	24%

Note: Respondents were asked to identify the "top two" risks in each category (macroeconomic, strategic, operational) separately. That is, respondents identified six risks (two in each category) as "top two" risks. For each category, the three risk issues (including ties) receiving the most responses by percentage are shown.

About the Executive Perspectives on Top Risks Survey

We surveyed 1,215 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 32 unique risks on their organisation over the next two to three years and over the next decade, into 2035. Our survey was conducted online from mid-November 2024 through mid-December 2024. For the near-term outlook, each respondent was asked to rate 32 individual risks on a five-point Likert scale, where 1 reflects “No Impact at All” and 5 reflects “Extensive Impact.” For each of the 32 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

We also asked executives to share their perspectives about long-term risks (over the next 10 years – 2035) by selecting the top two risks from each of the three dimensions (macroeconomic, strategic and operational). For each of the 32 risks, we calculated the percentage of respondents who included that risk as one of their two top risks for each dimension.

Read our *Executive Perspectives on Top Risks Survey* executive summary and full report at www.protiviti.com or http://erm.ncsu.edu.

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