About the survey

In 2015 EY conducted over 40 interviews with the chief risk officers (CROs) of life, non-life, multi-line and reinsurance firms (including groups and subsidiaries headquartered in the UK).

The results provide a meaningful point-in-time insight into the current state of the CRO agenda and the key concerns and priorities for CROs going forward.

The UK survey complements the findings of our EMEIA CRO insurance survey, which targeted the largest life and non-life insurance groups operating across Europe. It allowed us to compare and contrast key themes in markets that are closely related geographically but materially different in terms of regulatory and market drivers guiding the insurance sector.

The objective of our surveys across regions has been to strengthen our collective industry insights on a national and global level. We’d like to thank all the CROs who generously gave up their time to contribute and share their views and insights.
Key emerging themes

1. The standing of CROs is consistently increasing across the market, however, views on the CRO role and its evolution differ.

2. 100% of firms have formalized their systems of governance around “three lines of defence,” but no two firms are identical.

3. Regulatory intrusiveness and uncertainty has been and will continue to be a “distraction” to the CRO role.

4. 70% of CROs state their ORSA adds value to their organization but efficiency, effectiveness and embedding remain a challenge.

5. People and skillsets remain key priorities for investment.
1: The standing of CROs is consistently strengthening across the market, however, views on the CRO role and its evolution differ

- 69% of CROs report directly to the CEO and 100% confirmed they engage closely with NEDs through the Board Risk Committee. CROs increasingly contribute to discussions at board level, however, they hold different views on the need to formalise their membership and right to “veto” decisions. Additionally, their views on the future of their role vary greatly.

- Risk Governance arrangements throughout groups have been strengthened to respond to the need for better evidence of risk oversight activity across the group, with CROs increasingly part of the decision committee for all of the key business processes in the organization. These include business strategy, product approval and strategic decisions such as M&A.

- A reflection of CROs’ increased level of accountability within their organizations resides in their ability to have a voice on, and be part of, the decision committee for all major business processes, including business planning, product approval and capital deployment.

- CROs consistently expressed a preference to raise their concerns on material decisions outside of formal committee settings in order to ensure that a healthy relationship between first and second line is maintained, and not be seen as a “decision blocker.”

Opinions vary as to the ability of the CRO to influence decisions as a result of CROs’ attendance at to board meetings as opposed to membership.

Three broad views emerge:

1. CROs should be members of the board to ensure Risk can effectively influence decisions at the highest table and not jeopardise their position.

2. CROs should not be board members in order to preserve their independence and be able to objectively challenge first line decisions. There are examples of firms having clear policies in place to direct this philosophy throughout the group.

3. CROs can either be members or attendees, in that their role requires them to be involved in any decision, and the CRO needs to shape this out individually.
1: The standing of CROs is consistently strengthening across the market, however, views on the CRO role and its evolution differ (continued)

- For 80% of our respondents, ownership over model governance and validation processes clearly resides within the risk function.
- Ownership of areas such as risk appetite setting and stress and scenario testing design differ greatly.
- CROs all expressed confidence over their ability to challenge material decisions if needed, particularly where such a decision has the potential to result in a risk appetite breach.
- Interestingly, we received mixed responses when we asked CROs whether they had a formal right to “veto” any decision.

What is your role in the following processes?

“Risk absolutely has a veto. However, if you are using it, you are not doing your job properly. I am in no doubt that if I do not approve, the board will not sign off.”

“The CRO should not be a member of the board. The role of the CRO must be more of an advisor to the board and should be independent of the board.”

“I would see significant benefit in being a member of the board as membership, as opposed to attendance, strongly influences the standing of Risk in the organization.”

- Risk takes a leading role and is seen as process owner
- Risk is part of the decision committee and can influence the decision
- Risk has a voice but limited influence
2: 100% of firms have formalized their systems of governance around “three lines of defence”, but no two firms are identical

CROs described the need to formalize and document systems of governance as one of the biggest challenges in dealing with Solvency II. Despite this, consistent understanding and implementation of these three lines remains a challenge for many firms and therefore creates significant opportunity for efficiency.

► Demonstrating independence between “production” and “review” activity performed by actuarial and risk teams remains challenging; CROs are cognisant that, if not evidenced appropriately, it could lead to increased regulatory scrutiny.

► CROs consistently highlighted their healthy and collaborative working relationship with internal audit (IA) functions, particularly around the production of the audit plan. Though IA is clearly the third line of defence and is required to be operationally independent by first and second line functions, collaboration with Risk Management is seen as beneficial in terms of prioritizing the audit plan for the year.

The focus on evidencing independence between the “production” and “review” activities performed by Actuarial and Risk has resulted in diverse structures being implemented across firms. For example:

► Integration of actuarial teams responsible for “production” within finance teams and “reporting to the CFO” – this model shows the most benefits in terms of demonstrating operational independence of “second line” actuarial teams who maintain responsibility for reviewing and challenging the outputs of “first line” production teams. The reporting line of the latter is then either to the CRO or Chief Actuary, however, with a clear second line role.

► CRO leads both actuarial and risk teams and coordinates tasks to ensure independence is maintained – this approach provides a good platform for knowledge and capability transfer within the function, however, it also raises challenges in terms of evidencing independence, particularly in relation to validation activity.

Collaboration between risk and internal audit functions should be improved when undertaking assurance activity.

► Lack of a common vision over the risk universe as a result of IA using a different risk and control register to guide its activities.

► Risk and internal audit both adopting an “advisory” or “assurance” role in their respective lines of defence, which leads to confusion around their relative positioning in the framework.

... contrary views still remain:

“If you think about it, Risk really should own the production and calibration of the balance sheet and capital so that finance focuses on managing only the balance sheet and not the results.”
3: Regulatory intrusiveness and uncertainty has been, and will continue to be, a “distraction” to the CRO role

The regulatory agenda has undoubtedly enhanced the CRO role and standing, as well as reinforced the understanding of risk at board level. However, CROs feel they have been preoccupied with addressing details of the regulatory agenda and as a result are “distracted” from focusing on the underlying risk in the organization. With model applications in and Solvency II go-live approaching, CROs’ regulatory focus is often shifting to the conduct agenda.

| 33% of respondents highlighted conduct risk as high on their list of priorities for 2016 and beyond |
| “Relentless levels of obsessive detail and having to prove everything makes the process challenging.” | CROs stated their frustration at the level of intrusiveness by the regulator and its effect on their ability to focus on other activities that fall within their remit. |
| “The board likes my ORSA – the PRA wants me to include much more detail around more static governance related aspects, which the board would already know. How is this going to add value?” | CROs described how regulatory requirements reflected within the ORSA report, particularly around the “static” sections of the report, failed to add value to the business and reduced its impact as a tool to be used by management and the board. |
| “The PRA seem to be adopting a one size fits all approach, which is disproportionate and often creates significant amount of work with no added value for the business.” | CROs highlighted that many of the activities they are asked to perform for the regulator add little value to the business and don’t enhance risk-based decision-making. |
4: 70% of CROs state their ORSA adds value to their organization, however, its efficiency, effectiveness and embedding remains a challenge

55% of our respondents shared that their ORSA processes help inform the board of the risk management priorities. However, some weaknesses were identified in the existing ORSA processes, highlighting clear areas for improvement over the next 12 months. 45% of our respondents felt that forward looking projections needed improvement.

Key weaknesses highlighted by respondents

► Approximations used in forward looking assessments as a result of limited infrastructure and technical capabilities to project capital requirements
► Level of automation for the production of the ORSA report is limited, with significant effort and manual activity still required
► Lack of integration with the business planning process
► Understanding of what is considered by ORSA record, specifically what should be included in full and what should instead be referenced

Key areas of priority going forward to evolve the ORSA

► Improvement of capital projection ability to cater to multi-year projections and provide greater insights in their ORSA via scenarios at different confidence levels to inform risk appetite in a more meaningful way
► “Systemization” of ORSA production elements to improve flexibility and efficiency
► Articulation of the trade-off between risk and returns effectively and consistently
► Alignment with business planning process
► Building the ORSA Record and ‘embedding it

“ORSA adds enormous value if you get it right. It helps the board understand the strategic business dynamics better, rather than having them delve in to the day-to-day operations. It is a real opportunity to ‘stand back.’”
4: 70% of CROs state their ORSA adds value to their organization, however, its efficiency, effectiveness and embedding remains a challenge (continued)

The PRA guidelines state that stress and scenario testing (SST) is a key component to be included within the ORSA process. Insurers are expected to be able to demonstrate the use of a wide range of plausible, reasonable stress and scenario analysis to cover all material risks over the time horizon of the business plan. They also stated that they are yet to see an ORSA report that adequately achieves that goal.

► The three areas where CROs use the results of stress and scenario testing are as follows:
  ► As one of the main tools to perform validation of their internal capital models and to explain its results to the board in a more qualitative manner
  ► As a means to educate the board on the potential impact on various organizational dimensions, e.g., liquidity, capital, reputation
  ► To explore the “what if” scenarios that could threaten the achievability of the business plan and identify the management actions that would therefore need to be put in place

► Only 22% of the firms sampled have a formal crisis management programme in place to engage with the board and explore the implications of a material financial incident impacting the organization. These firms are largely subsidiaries of globally systemically important insurance groups across life and non-life who are responding to a regulatory requirement.

Have you established a crisis simulation programme or other means of translating or testing actual governance and decision-making when extreme scenarios arise?

![Pie chart showing 78% No and 22% Yes]

Simulation exercises on an ad hoc basis have been undertaken, depending on business needs. These have included:
  ► Intermediary performance
  ► Impact of euro breakdowns
  ► Lloyds market failure
  ► Loss of confidence and reputational damage
  ► Disaster recovery programmes
5: People and skill sets remain the key priority for investment

CROs are aware of the need to balance investment in people and infrastructure, particularly in terms of data availability for MI production, automation of risk reporting and run times of models.

However, budgets for IT spend typically rest outside the risk function and it’s therefore not surprising that CROs continue to be focused on ensuring the right risk skills are in place across the organization. 70% of the CRO’s budgets are focused on this.

The budget for the risk function is going to:

- 53% will invest their budgets predominantly in people and skills.

However ...

- 25% say lack of automation and IT support makes production and data management for management information challenging. This makes it difficult to achieve the desired level of monitoring and reporting of risk.

Hiring and retaining talent has become ...

- Generalists were available in abundance, however, specialists were expensive and difficult to find. 45%

It is challenging to keep staff motivated by ensuring a clear path to progression — a more prominent issue in smaller organizations. 45%

36% of risk functions have increased in the last year but most are the same size.

2015 UK CRO Insurance Survey
Other themes: model risk management and validation

CROs consistently highlighted the need for a pragmatic approach to validation to ensure it is sustainable and cost effective in the future. Three approaches were described:

1. **Validation is performed internally.** Firms leverage centres of excellence (particularly in large multinational groups), where the CRO can benefit from a large pool of resources with the skills to perform specific validation activities independently from teams involved in the design and implementation of model components.

2. **Validation is outsourced to an external party.** Commonly used when an organization lacks specific skills or expertise outside the risk and actuarial teams and therefore are not able to allocate resources to validation and remain independent from those who performed design and implementation.

3. **Validation is performed via co-sourcing arrangements with external parties.** This approach provides the opportunity for CROs to select the right mix of resources, both internally and externally.

An increasing number of firms are starting to think of model risk in its broader sense. These firms have defined a model inventory to develop a single view of all models being used across the organization.

Do you have a formal model risk programme in place?

- Yes: 61%
- No: 39%

Who within the organization has primary responsibilities for the model risk management programme?

- CRO: 79%
- CFO: 14%
- Chief actuary: 7%
- Other: 0%
Looking ahead

CROs agree that their role will change ...

... but views on “how” differ greatly

CROs feel that their role has significantly evolved in the recent past. While some expect the role to remain similar in the next three to five years, the majority of our respondents are hopeful that their role can move on from managing the regulatory interaction to focus increasingly on business as usual and providing oversight and challenge to the business. Interestingly, these views differ among respondents, largely across three main themes ...

“The CRO will evolve into a role that is the ‘flip side’ of strategy.”

“There is a risk that the CRO becomes more of a regulatory box ticker.”

“The CRO would evolve to be more of a ‘Chief Customer Officer,’ i.e., acting as a policyholder champion.”
The risk function has carved itself a distinct place in the organizational structure.

CROs have invested considerable time in establishing the three lines of defence model in their organization structure – a move that has provided them a good degree of comfort in evidencing compliance. The implementation has currently led to diverse structures across firms – efficiency of which is still to be realized.

The ORSA process has received significant sponsorship. It is currently being used extensively for educating the board on risk management activities with significant time being invested in improving processes that contribute to the ORSA.

CROs have been able to manage regulatory expectations well, despite the frequent changes issued by the regulator in the recent past. There is, however, a general concern on whether a balance could be achieved between time invested by the CRO in compliance priorities and other macro business issues.

Technology is acknowledged as one of the key tools to aid process efficiency, but it is not yet a top priority relative to the people and skills needed in the risk function.

The role of the CRO continues to evolve – going forward it is expected that CROs will expand their realm of accountability to take on more strategic business role in addition to their current roles, which are more aligned to the firm's, internal model.
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