Introduction

About this report
As with previous annual insurance CRO surveys, the goal of the 2016 EMEIA Insurance CRO survey is to gain insights into the role that risk functions play in their organizations, the key priorities of CROs in the short and medium term and the manner in which the CRO role is evolving. In particular, we aimed at assessing CROs’ ability to contribute indirectly to value creation, identifying the key challenges they face as a result of changing regulatory requirements and unstable economic and political environments, taking into account the evolving role of technology in the industry and the risks associated with it.

The respondents
We spoke to a spectrum of leading life and non-life insurance companies, reinsurers and prominent insurance groups headquartered in Europe, which specialize in multi-line insurance business, generating sizeable premiums, and with an extensive global reach.

Each of these firms have their own unique proposition to offer and are market leaders or trend setters in their respective area of speciality.

We have interviewed 16 group or regional CROs, and taken soundings from a small number of chief executives and non executive directors.

EY sincerely thanks the CROs and companies that shared their time and insights for this year’s survey.
A year of “big events” has made Risk more relevant than ever at the executive table - Page 4

Recent political developments in the EU and UK along with financial market volatility in the first half year and strategic pressures on insurers’ business models demand Risk to be a visible contributor at the executive table.

Through Solvency II, a key role of CROs has been to find the right balance between risk, capital and value. Going forward, CROs’ emphasis should move away from pure regulatory matters and increasingly focus on business matters - Page 6

Although mission statements vary, CROs are increasingly defining their role as a “Strategic Enabler”

There is no single position taken on the fundamental role of Risk. This is partly driven by the variations in the Board, CRO and regulator attitude, but mainly it is reflective of a business maturity - Page 8

CROs still don’t see the benefits from the development of granular metrics to measure the “Value of Risk”

It’s interesting that several respondents resisted the concept of measuring the value that Risk brings, but this is a question that the business often asks and it is more important than ever that a strong case is made to attract investment - Page 12
This year is the first year when the “three lines of defence” are being tested in earnest, and there is a general challenge around ensuring efficiency and effectiveness of risk management across Line one, two and others - Page 14

CROs have taken steps to communicate and embed risk appetite throughout the business. More work is needed to strengthen risk accountability and understand risk appetite across the entire workforce - Page 16

A growing emphasis on personal accountability and the complexity of insurance operations are driving the need to adopt a systematic approach to operational risk management - Page 18

CROs recognize the need to continuously improve their existing IT capability; however, there are many stages of maturity still required in headcount, structure and wider skills of second line teams - Page 20

Now that the “lines of defence” are established, the focus is on efficiency and effectiveness - Page 14

Strengthening risk accountability and understanding of risk appetite across the business is still a challenge for CROs - Page 16

CROs recognize shortcomings particularly in operational risk management and seek to improve its effectiveness - Page 18

In the battle between investment in people and in technology, it is people that win everytime - Page 20
A year of “big events” has made Risk more relevant than ever at the executive table.
Top insurers’ earnings slump in Q1!...

...Q2 got worse

The Brexit vote has caused significant uncertainty for the insurance sector and the global market with more political risk to come

Low rates are tormenting insurers...

Increase in competition challenges insurers’ business models

It’s clear that the risk role is now much more than a Compliance role

Risk alongside Finance (and the wider business) has had to play a key role during 2016 in:

- reacting or responding to fresh fires
- business planning
- contributing to the long term strategy

We see the risk function increasingly being considered the backbone for a successful value-centric insurer.
The requirement to establish a direct link between value, risk and capital under Solvency II has been a key enabler to Risk becoming the “backbone” of the organization.

“Our agendas [CFO and CRO] are more aligned than ever before – the risk-based capital regime brought the two agendas much closer together. Without Solvency II this may not have been the case.”

“The triptych capital / risk / income is now well anchored: the fact that you can now look at a risk, know the amount of capital needed and assess whether we receive the right premium is our simple way of demonstrating value.”

“I’m sometimes the only one who can openly raise the “elephant in the room”.”
► Having the right risk metrics in place and cascaded to Line one business owners has driven an active dialogue in response to the changing economic environment just at the time when we need it the most.

► Whilst the role of Risk around the building blocks of Solvency II has generally remained stable (e.g., Model Governance, Model Validation), it is in those areas where Risk has only ever been an influencer rather than the owner that the involvement of Risk has increased the most. Many respondents to last year’s survey reported having “limited influence” roles on Capital Management and Business Strategy, whilst this year many more respondents are a “key part of the decision committee” in this area.

Role of Risk on the following processes:

► Although CROs devote a significant proportion of time to managing the regulatory agenda, we increasingly see CROs focusing more on the business and returning closer to the pre-2008 regulatory / business emphasis.

► There is a wide range of responses to the question of how often and when risk ought to formally disagree with business decisions. Regulators increasingly look for hard evidence of effective challenge but many CROs would say this challenge should come long before a board paper is submitted.

As these evolutions continue to shape the role of the CRO, how do CROs themselves define their fundamental role?
Although mission statements vary, CROs are increasingly defining their role as a “Strategic Enabler”

What do CROs say:

“Risk is an advisor, communicator, translator to the Executive Committee and Board”

“Risk has a dual role to play as a trusted business partner and to be an independent risk challenger”

“Risk acts as a sort of lens into the Group for the Regulator”

“My role is to ensure we achieve regulatory compliance in the most cost-efficient way possible”

“I see our role as firstly helping the company decide which risks to take. And then by definition which risks not to take”
There is no single position taken on the fundamental role of Risk. This is partly driven by the board, CRO and regulator attitude, but mainly it is reflective of the degree to which the business environment is mature and stable.

What is your fundamental role?

Firms with CROs “enabling opportunity within bounds”:

- ...avoided recent surprises and shocks
- ...have established governance and internal control frameworks
- ...are relatively comfortable current regulatory relationships
- ...avoided substantial cost or challenge or business shake up

Although many CROs are expressing a desire to be a close strategic partner, we are seeing limited connections between Risk and some major strategic projects (e.g., digital, direct-to-customer, robotics, technology migration). Is this just a timing point or does something need to change?

A common theme arising from CROs’ responses is the need to ensure the appropriate level of return on investment (ROI) is paid back to their boards. So what is the value of risk?

Based on responses from 16 of our participants.
“Risk is playing a recognized role in the strategy process by providing projection modelling and forecasting, reviewing new areas of development, performing independent risk views to the Board, etc.”

“We perform adverse scenario tests on all executive proposals. This gives people a view of the potential catastrophic scenarios. This is done through use of the Internal Model.”
Case study

Is this what good looks like?

One particular CRO among our participants is confident that Risk Management has achieved full integration of the firm’s strategy setting and decision making processes.

If last year’s focus was on “doing the homework” in view of the January 1 2016 deadline for Solvency II (and completing the IMAP), this year’s focus has been on embedding Solvency II processes in business as usual.

The timely juncture for this CRO to get actively involved in the firm’s strategy setting has arisen as the triannual planning cycle coincided with the FY16 journey.

Risk has been “tested in fire” as part of the strategic planning process and consulted upfront to assess strategic options for the Board. Practically this has meant that:

► Several risk resources were included in the strategy team to facilitate regular interactions
► Tools and mechanisms developed by Risk (such as ORSA analysis and scenario testing) were leveraged to serve business considerations

This heavy involvement of the risk function in the strategic planning process has enabled them to “bring Solvency II life” and provided an opportunity for the function to use what has been initially built for regulatory purposes to effectively support the running of the business.
CROs still don’t see the benefits from the development of granular metrics to measure the “Value of Risk”

What do CROs say:

“We do not brag about our accomplishments, we see our value added when rating agencies have a positive view on the company”

“We know we’re being successful when Risk Management is automatically invited to the table to discuss and input to our most important strategic business issues”

“Achieving IM approval, as it provides a better understanding of the linkages that exist between value, risk and capital”
We see other functions including Internal Audit applying clear metrics to the value they bring to the organization but many CROs are not applying the same rigour to their function.

This is not about personal performance metrics. Instead, it is about Risk being able to articulate a positive impact on the business direction, strategy and decision making – which ultimately will have an impact on the bottom line.

Of course, this is all more straightforward when an internal model is justifying considerable capital releases compared with a standard formula.

**How CROs consider their contribution:**

**Where Risk has historically played more of a compliance role, indicators include:**
- Regulatory approval
- External validation
- Board feedback and CRO appraisal

**Where CROs aim to get closer to the business, key qualitative indicators include:**
- Proximity to the business
- Involvement in strategic decisions
- Risk role implicitly accepted
- Limited budget pressure

**Where Risk is considered as a strategy enabler**
- CROs measure value creation through KPIs linked to capital, operating profits, etc.
Now that the “lines of defence” are established, the focus is on efficiency and effectiveness

“Rigidity is comfortable for all. However, there is a need to understand the time when you need to flex the framework to enable success”

“There is too much theoretical talk, and not enough understanding of where and when Risk needs to be involved day-by-day with the businesses”

“It is like in a small boat, with one person rowing (first line) and a bunch of people (second and third line) offering perspectives from the back of the boat”
Although a lot of work has been done to evidence compliance with the three lines of defence (LOD) principles, more work is needed to confirm the model works in practice.

**Key practical challenges include:**

- **The rigidity incurred by having 3LOD**
- **The cost of having too many people advising and opining**
- **The lack of ownership by the first line**

**What are risk functions doing in practice to make it work?**

- Identify overlaps and areas of inefficiencies across second, third line (internal and external audit) functions when scoping and performing assurance activity.
- Continually reiterate ownership in first line through training and by setting the right tone at the top.
- Clarify the level of assurance to be provided by the second line of defence around Solvency II compliance.
- Define the timing of Risk’s involvement in key decisions and improve understanding of accountabilities across the three lines.
- Don’t let the framework be in the way of the right conversations.
- Pace matters more than cost sometimes. For venture capital projects could only one line of defence be sufficient in early stages?

Many CROs feel the industry is in danger of being too “hung up” on the three lines of defence. This has sometimes resulted in rigid structures being set up, leading to a culture of observation and critique.
Strengthening risk accountability and understanding of risk appetite across all risks is still a challenge for CROs

What CROs say about consistency of risk appetite across the firm:

“At the top risk appetite is understood but more work needs to be done to make it come to life in the business”

“We are a P&C underwriting-focused firm. With a committed first line of underwriters with strong track records, I’m confident the DNA is good there”

“Risk appetite is articulated at an aggregated level. Work will need to be done to operationalize this into a more granular limit system”
There is a general sense that Senior Management understands, though there is still more work to be done to cascade understanding and accountability across the entire workforce.

Where there is a clear capital impact of risk mismanagement, the Solvency II project has created a very natural accountability in the cascaded Line one business.

But, particularly for operational risk, the capital impact is not clear. Whilst Line one can be exceptionally good at managing operational risk, the direct understanding of risk appetite accountability and ultimately bottom line ownership is not always strong. So what can be done?

**What proportion of CROs has set quantitative limits on the following risks?**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Quantitative limits in place</th>
<th>No quantitative limits in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Equity</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Interest rate</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Insurance</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Operational</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

What did one multinational corporation do to close this “operational risk management vs. capital” gap?

- Encourage a culture where people “really care about it”
- Use vehicles such as the Risk Committee to act as police and ensure plans are in place and keep people accountable to drive them forward
- Ensure the right “tone from the top”
- Have risk professionals who on a regular basis prioritize what to focus on based on professional expertise
- Operationalize risk appetite into a more granular limit system
- Engage early with the business to define risk limits - adopt an iterative approach to avoid surprises
CROs recognize shortcomings particularly in operational risk management and seek to improve its effectiveness.

What do CROs say:

“Cyber is one of the elements of OpRisk but it’s the new one - things can go wrong on many other things. Cyber is something you need to manage proportionately with the tools that are available”

“There is consistent understanding of risk appetite except for operational risk”
EMEIA CRO survey 2016

Most CROs say that operational risks are generally well managed and understood by the first line but when it does go wrong, these loss events can be substantial and going forward, there are reasons not to be complacent.

Increasing financial consequences; a growing emphasis on personal accountability; and the complexity of insurance operations. These are driving the need for the adoption of a systematic approach to operational risk management.

What proportion of time do you spend on operational risk management?

Based on responses from eight of our participants

One CRO found that the operational risk framework was not naturally lending itself to proactive management of cyber risk – What did they do about it?

► The CRO worked to create a risk management model that actively identifies, assesses and manages cyber risks. Firstly, by understanding the businesses prioritization of relevant initiatives. Secondly, by objectively mapping those against the business maturity and hence capability to deliver these initiatives.

► The CRO then defined a process to translate the actual threats and vulnerabilities into cyber risks and identified corresponding controls.

► The overall model has been implemented in a Cyber Risk Management Tool. This tool provides a company-wide view on the cyber risks, prioritizes security initiatives and allows for visual executive reporting and steering group MI.

Penalties for operational failings have reached a level where they are having a material impact on firms’ profitability and often lead to significant reputational damages. However, insurance CROs spend, on average, 20% of their time on operational risks as opposed to financial risk.

Most respondents mentioned Cyber as one of their biggest concerns and this should be a key area of operational risk focus.
In the battle between investment in people and in technology, it’s people that win everytime.

What do CROs say:

“First I need the right people and processes in place, then I’ll think about automation.”

“Focus going forward remains on ensuring the risk team has sufficient understanding of the business to challenge and “partner” with first line.”

“Even if the main focus is on talent, it’s important that someone is tasked with establishing the “RiskTech” strategy:

- What gaps need addressing?
- What options exist to enable Risk?
- What are the pros and cons?
- How are you scanning the rapidly changing market?”
CROs recognize the need to continuously improve their existing IT capability; however, the focus of our respondents has generally been on ensuring that Line two people have in-depth knowledge of the business, as opposed to refining the tools those people have available.

The exception has been a general recognition that in order for Line two to proactively engage, Risk people need access to real time relevant data and tools that allow deeper analysis of that data – what can go wrong, and what is going wrong?

Investment in people means much more than just headcount but “experienced” individuals. The time has come to instil professionalized development programs for individuals, and to address the structural deficiencies that are holding some people back from their potential.

Views differed on the value of rotation programmes – a good Line two person is not necessarily a strong Line one candidate and vice versa. But there does need to be a career path in order to attract and retain strong talent, and it isn’t always obvious that that career can start and end within the risk function.

A risk function that has achieved “strength-in-depth” is in a good position to consider whether the risk technology suite is holding back the team from achieving its purpose. It is not surprising therefore that we see a spread of responses to the question on future IT budget allocation.

Based on responses from eight of our participants
What's next?

New priorities and challenges are lying ahead of CROs
The CRO of the future will be

► A strategic advisor to the Board by being actively involved in business and strategy decisions
► Fully engaged with the business and aligned to Finance, taking business responsibility when necessary
► Digitally aware and actively involved in digital transformation programs aiming at automating processes in the risk function, effectively using data and analytics to improve quality and timeliness of reporting
► On top of operational risk management, more specifically an increased focus on developing cyber risk offerings both to protect the firm and customers from cyber attacks

What CROs say:

“Today the risk function manages risks at a very granular level, develops models, provides good MI and is able to effectively challenge management decisions, but the strategic aspect of the role will become increasingly important”

“Automation is definitely one of our top priorities”

“Looking three to five years out, CRO will need to have rounded capabilities and not be a traditional risk person. The CRO will be more strategic and data or analytics informed. Focus will be on tangible value generation”

“Develop “Risk people of the future” is the challenge ahead”

“Strengthening cyber risks capabilities within the second line will become increasingly important”
Eight questions to ask yourself

1. Do your colleagues in the business share your view of the role of Risk?
2. Is Risk as close a contributor as it could and should be to all the strategic change projects within the business?
3. Do your best people have a clear career path with you?
4. How can I contribute to an agile global business whilst ensuring suitable cascades of information and decision making?
5. Who have I asked to own the assessment of technology options in Risk?
6. Where should we aim to influence further with other functions/initiatives within the business?
7. How much more should Risk focus on operational risk and cyber in particular?
8. How will I close the talent gap, train and retain, and build to the future?
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