A focus on value creation and regulatory oversight

2015 insurance CRO survey
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Executive summary

EY’s fifth annual survey of chief risk officers (CROs) in the insurance industry continues to show the strategic evolution of the role, as well as the increasing sophistication and maturation of risk management capabilities. It is clear from this year’s results that CROs are dealing directly with many of the most important changes buffeting the industry. Thus, it is possible to see the most profound forces of change in insurance reflected in the evolution of the CRO role. In other words, the profile and value of CROs continue to rise as effective risk management is increasingly viewed as a requirement for market success.

Further, the results from this year’s survey confirm that risk management has been increasingly “operationalized” as an essential part of managing an insurance business. The rising authority, expanding responsibilities and higher organizational profiles of CROs that were highlighted in previous surveys are being manifested tangibly across the organization in multiple ways, including:

- Direct participation on key strategic business matters
- Larger staffs
- Wider use of stress testing
Risk frameworks are no longer conceptual in nature, but have been broadly implemented in the form of multiple lines of defense. Risk appetites have been clearly defined and are being actively used to manage the business. As one survey respondent put it, risk management is closely “integrated with the business, rather than being an afterthought.”

One significant change for CROs – especially those at midsized carriers – is the likely convergence of state-based regulations with federal guidelines. Many CROs are facing up to the reality that there won’t be one distinct risk management framework for those insurers designated in the US as systematically important financial institutions (SIFIs) and another for non-SIFIs. This represents a significant shift in thinking from just a few years ago. The expectation is that state regulators will become more prescriptive and may be pushed to adopt similar standards and guidelines to those established by federal regulators, and that they will use Own Risk Solvency Assessments (ORSA) to better manage this transition. The implication is that the CRO agenda will only get longer.

While past results highlighted the evolution of CRO responsibilities, this year’s survey was designed for greater specificity and granularity in terms of defining the CRO role in providing input on decision-making in critical risk areas and understanding how CROs interact with other parts of the business. For instance, many companies have spent the last few years building their analytical and economic capital capabilities; the results illustrate how insurers are using such capabilities.

Feedback from participants in past surveys led to the addition of these new questions. Overall, the survey is structured around high-level topics (overview), organizations and operations, measures and models, regulations and the future (looking ahead). The goal is to gain a sense of today’s CRO daily realities and the story behind the statistics. Both the story and the statistics are shared on the following pages.

The impact of industry events and trends on survey results

It is important to interpret the CRO survey results in light of industry trends and broader economic events that occurred during the period of the survey, which was conducted from December 2014 through February 2015. The economy continued to improve and most of the rating agencies issued stable ratings for both the property and casualty (P&C) and life insurance industries. The specific events highlighted below may have affected survey responses:

- Serious concern and much uncertainty resulted from the failure of a divided U.S. Congress to extend the Terrorism Risk Insurance Act (TRIA) by year-end 2014. The legislation eventually passed in January 2015.
- The December 2014 release of the IAIS (International Association of Insurance Supervisors) Consultation Document spelled out plans to develop and finalize an international capital standard (ICS) for Internationally Active Insurance Groups (IAIGs) and Globally Systemically Important Insurers (G-SIIs). The IAIS will conduct field tests throughout 2015.
- The Federal Reserve Board (FRB) was in the process of conducting a quantitative impact study (QIS) on the impact of bank capital standards on insurance companies under FRB supervision. With the modification of the Collins Amendment, the FRB has more flexibility to consider alternate capital adequacy standards for insurers subject to FRB regulation and supervision.
- The Federal Insurance Office continued to make its presence felt through the release of a study of the impact of reinsurance on the US insurance industry.
About EY’s CRO Survey

From December 2014 through February 2015, EY insurance risk analysts conducted interviews with chief risk officers and other senior risk executives from 20 North American insurance companies. As with previous annual insurance CRO surveys, the goal was to document and detail “top of mind” issues for the insurance industry’s risk management leaders. Survey respondents represent life, P&C and multi-line insurers, and a range of sizes, including focused midsized carriers and some of the largest and most diversified companies. A number are under Federal Reserve Board supervision or have parent companies subject to Solvency II (SII).
Capital standards continue to confuse
The lack of common accounting standards and capital measures makes it difficult to compare performance and solvency across companies. Insurers employ a variety of different capital measures, many of them specific to the company, to analyze their risk exposures over a range of time periods and under different normal and adverse scenarios. The recent QIS by the Federal Reserve Board and the field testing by the IAIS have motivated a number of companies to propose new approaches to regulatory capital treatment. Much work remains to be done in this area. One CRO observed that “all regulation is ultimately local” and that, based upon the current SII requirements, his company could lower its capital requirements by buying Greek bonds.

Grudging acceptance of more regulations and more intrusive regulatory oversight
One of the big changes from prior surveys is that CROs from insurers not explicitly regulated by the Federal Reserve Board now expect that they will soon face similarly tough oversight. They also recognize that federal requirements for insurers will continue to evolve. In the past, these CROs were confident that current state-based requirements would remain unchanged. Now, they realize that the two regulatory regimes, with different risk management standards, are likely to converge around the more stringent guidelines. As one CRO remarked of the changing regulatory outlook, “You need to prepare to be treated like a SIFI.”

Risk management is a team sport
CROs have spent the last few years dealing with a series of crisis situations and establishing risk frameworks for their companies. The 2015 survey shows CROs spending more of their time and effort on integrating risk management practices into the business – a clear indicator of the maturation of risk management functions across the industry. In fact, for some CROs, the value of the risk management function is chiefly measured in terms of its integration with the business. That more business units themselves are expanding their risk management capabilities and hiring more risk staff shows how risk management has become truly a team sport played across and at every level of the enterprise.
A focus on value creation and regulatory oversight. 2015 Insurance CRO Survey
Section 2
Overview
Q1. What was your most important accomplishment over the past year?

In the 2014 survey, many CROs cited establishing risk appetite and an economic capital framework as their key accomplishments. Although these areas remain important to CROs, this year’s key accomplishments involve building out the risk framework with a particular focus on governance. A few companies have just started building their risk frameworks, while others, with more mature frameworks, are on their second or third iterations.

Governance enhancements include strengthening the three lines of defense and expanding relationships with the board; as directors increase their focus on risk management, some CROs are involved in discussions about the possibility of establishing a board-level risk committee.

The big surprise is the number of CROs reporting that their biggest accomplishment was integrating risk frameworks and practices into the business, as well as legal and compliance functions. This development reflects increasing recognition that the risk management function cannot be an island; if it is to function properly and effectively, risk management must be owned, endorsed and implemented by first-line risk owners.

The other significant shift from last year is the decreasing focus on ORSA work; this is no surprise as initial reports are due in 2015. Last, risk quantification work is still important but not to the same extent as last year.

Q2. Compared to a year ago, has the size of your department increased, stayed the same or decreased?

Over 70% of this year’s respondents reported an increase in staffing in their risk function during the previous 12 months. Stress testing, operational risk, ORSA and model risk management were the most commonly cited areas of staffing expansions.

CROs also recognize that the competition for talent is intensifying. Consulting firms, regulatory authorities and insurance companies are all competing for the same limited pool of resources. There is even competition for talent within the companies, as individual businesses are competing with the risk management organization for individuals with risk and compliance skills. Some companies are retraining risk staff so they can perform new risk tasks and activities that are in high demand.
Q3. What are the biggest risk challenges facing the insurance industry today?¹

CROs are concerned about the pace and direction of regulations — a finding consistent with previous CRO surveys. However, unlike past years, CROs now believe that they may affect the pace — but not the direction — of coming regulations.

Not surprisingly, pending common capital standards are of overwhelming concern to insurance CROs. Respondents come from many companies that are not regulated by the FRB and unlikely to be in the foreseeable future, yet these CROs realize that multiple sets of minimum capital standards are unworkable and that there likely will be convergence toward the standards ultimately adopted by the FRB. Thus, they expect such a regulatory shift to present formidable challenges in the near future (see question 15).

The answers reflect the growing acceptance that potential IAIS and the Federal Reserve Board standards will eventually impact all insurers, not just those firms designated as SIFIs or those that are Savings and Loan Holding Companies (SLHCs). Not being designated as a SIFI is no longer viewed as a “safe haven.”

Some respondents feel that focusing on regulatory matters leads CROs to take “their eyes off the prize.” In other words, the focus should be on value creation through effective management of traditional insurance industry risk — equity, credit, underwriting and insurance.

In other areas, low interest rates and overall economic conditions are less of a concern to CROs; this year, only 13% of respondents cited these as the biggest risk, compared to 23% in last year’s survey. There is concern that competition is increasing and margins are narrowing (especially within P&C).

That 10% of respondents cited TRIA as the biggest risk likely reflects the concern at the time of the survey that the legislation might not pass. Now that it has passed, TRIA is less of a hot topic for CROs. Cybersecurity remains a major risk issue for CROs, with recent high-profile breaches in insurance and other sectors undoubtedly feeding their concerns. The CRO focus on cyber risks is an excellent example of the expanding role beyond traditional financial risk categories.

¹ Because this question had multiple answers, the percentages of responses were calculated and rounded for a total of 100%.

What CROs say:

“Good risk management can never be imposed by the regulators.”

“The biggest risk is the complete change in the regulatory landscape, much of which is inconsistent.”

“More group supervision and capital standards will have an impact on everybody.”

“The regulatory environment is the number one, two and three biggest risks.”

“Let’s give Solvency II a chance to succeed or fail.”

“We could be losing focus on the real business risks — underwriting, geopolitical, pricing and market.”
Q4. How do you know that the risk function is creating value?

Approximately a third of CROs reported that their biggest accomplishment for 2014 was integrating the risk function into the business (see question 1). It is clear that they believe that such integration drives management dialogue around the risk agenda and that risk management works best when there is active discussion (and perhaps disagreement) among the business units.

Management understanding of risk and risk processes is another way that CROs believe they can deliver value to the business. Survey responses make clear that management cannot adequately participate in the dialogue unless it understands the risk concepts and how CROs work to manage and mitigate risk exposures. Value is created when “business people learn the vocabulary of risk,” according to one respondent.

CROs also equate value with influence: if their opinions and perspectives carry weight with the executive team, then the function is creating value. For instance, in a strategic planning context, CROs like to provide their forward-looking perspective, and their analytical tools can further contribute to the analysis and discussion.

Interestingly, only 6% of CROs responded that value is best measured through external approvals from the regulators, rating agencies or the parent company.

What CROs say:

“Risk is part of the decision making and has influence on decisions that are made.”

“The measure of value is whether there is anything that surprised management. If they get surprised, then that is a failure of the risk department.”

“The value is still hard to quantify – you can determine if a process doesn’t have good controls, but putting on new controls doesn’t actually mean you saved something. Hedging you can quantify – controls you can’t.”

“If everyone understands what risks the organization is exposed to, then we are doing our job.”

“Executive management understands the major risk that can bring the company down.”
Section 3
Organizations and operations
Q5. What type of corporate governance model is in place in your organization?

The majority of respondents reported that their risk function is organized along a hybrid model, where certain risk responsibilities and authorities are delegated to the business units. Despite the prevalence of the hybrid model, there is active discussion about whether risk management works best in a centralized model.

Evolving regulations and advances in the three-lines approach are creating momentum for a centralized model. This includes having the second line responsible for establishing the corporate risk framework and the supporting policies and procedures. At the same time, more focus is being placed on the first line to explicitly own the risks. More evolution is to be expected as CROs seek the right models for their organizations.

Regardless of structure, CRO reporting relationships continue to move toward direct accountability to the CEO and the board of directors. However, about 50% of respondents still report to the CFO, with dotted lines to the board. Almost all respondents reported having full access to the board, regardless of reporting line, both on a formal and informal basis. They are also reporting to different committees of the board, which can include audit, risk, technology and compensation.

Federated
(designation-making authority largely rests at business unit or legal entity level)

Centralized
(designation-making authority largely rests at group or holding company level)

Hybrid
(decision-making authority is largely delegated, with specific areas of control retained at group or holding company level)

16%
21%
63%

What CROs say:

“We have a hybrid model, but it still requires a strong centralized body. We get consistency with common policies and procedures.”

“Our hybrid approach is very dependent on the people in the business units and their ability to properly execute their risk responsibilities.”

“As a result of the crises and Solvency II, we are moving toward centralized structure with three lines of defense.”

“If you look at the root causes of destructive events, they occurred under a decentralized structure where the CRO was not empowered.”
Q6. What are the responsibilities and authority of the risk function?

A number of CROs identified having influence in key corporate decisions as an important element of value creation. To develop a more complete picture of the roles and responsibilities of the CRO, survey participants were asked to describe their authority and influence in a number of risk and risk-related areas. As the table on the next page shows, the responses fall along a continuum – from full ownership of certain decisions to playing only an advisory role to having no input into decisions.

The results demonstrate the diverse responsibilities and many different ways CROs interact with the rest of the organization. It also illustrates varying maturation levels for the CRO role at different organizations. CROs in companies that have recently begun to improve their risk management practices reported their authority and influence was limited. For instance, in companies where the risk function is less evolved, the CRO generally provides far less risk input regarding investments, strategic decisions, model governance, model validation and other areas.

The table presents strong evidence that CROs in organizations with more advanced or mature risk management programs exercise complete authority in such areas as:

- Risk appetite definition
- Tolerance limit setting
- Scenario and stress testing design
- Model governance and validation
Because these activities are integral parts of establishing and monitoring the risk appetite, the CRO’s dominant role is not surprising. This finding is important because risk appetite and limit setting play an increasingly significant role in linking day-to-day activities to risk appetite by placing boundaries on setting of and execution of a company’s strategic plan. Further, CROs are placed at the center of this critical process. It is also interesting to note that CROs are moving beyond traditional financial risk management. For example, their involvement is increasing in new product development and other areas. It is clear that CROs’ unique perspective and ability “to look around corners” have become highly sought-after skills.

All respondents emphasized that even in the areas where they have a veto, decisions are often made in committee settings. In the committee decision-making process, CROs are expected to challenge assumptions and share their points of view from a risk perspective. In these situations, the CRO’s role as “effective challenger” is critical. Some CROs mentioned that the responsibility to escalate concerns to the CEO or board is always in the background.
Organizations and operations

Q7. Have you adopted a formal three lines of defense model?

The vast majority of insurers have adopted the three-lines-of-defense model for risk management. First-line management owns the risk, the second line (risk management) establishes the risk management framework and provides independent challenge and monitoring, and the third line (internal audit) provides assurance that the risk framework and the resulting policies and procedures are operating as intended.

As with other aspects of risk management, the establishment of this model is evolving as companies continue to refine their risk management frameworks and processes. According to respondents, the biggest challenge is explicitly setting the responsibilities of the three lines and addressing the many potential areas where the lines may overlap.

For some CROs, the major concern regarding the three-lines-of-defense model is that risks can be too far removed from the businesses. To work effectively, the strengthening of the second line must not come at the expenses of weakening the first line’s ownership of the risk. “Three lines is better in form than substance,” said one CRO. “If the risk function is the only one to carry the ball, then we have a problem.”

Q8. Describe the relative responsibilities and interactions with the compliance function and your group in terms of the three lines of defense.

As the compliance organization assumes more risk-related responsibilities (risk framework and independent monitoring processes for anti-money laundering and know-your-customer guidelines, consumer protection) as a second line of defense function, there is a need for stronger cooperation and coordination between compliance and risk teams. Increasing regulations, and thus compliance requirements, reinforce the need for greater coordination.

However, at many firms, such coordination occurs largely on an informal and ad hoc basis, usually when the CRO and Chief Compliance Officer (CCO) sit on the same committees. Communication and alignment are aided in those companies that have a common risk taxonomy, and risk assessment processes and tools.

In some companies, compliance handles primarily legal issues and interacts with risk on legal and certain regulatory issues. At others, the continued existence of a “gray line” between risk and compliance sometimes leads to disagreements. A number of CROs reported no formal relationships, but cited their informal interactions in the hallways with the compliance staff as a good communication mechanism.

What CROs say:
“Compliance is not part of risk but we have a strong partnership; their risk assessments are consistent with our RCSA process.”
“There is great dialogue going on. We are becoming more and more transparent.”
“We struggle with the risk and compliance issues and who owns what. We are starting to interact differently with them and to clarify the grey lines.”
“We may bump heads occasionally. There is the potential that compliance will report to risk going forward.”
“The CRO and CCO are working through the issues, but not sure what they should be. It can be described as tense cooperation.”
**Q9. Describe the relative responsibilities and interactions with internal audit and your group in terms of the three lines of defense.**

The relationship between risk and internal audit is generally more mature than the relationship between risk and compliance. But it too is undergoing significant changes. The risk responsibilities of internal audit are changing to reflect the expansion of risk activities and responsibilities in both the first and second lines. IA is facing increased audit responsibilities in the execution of the Enterprise Risk Management program, including the Risk Control Self-Assessment process, the resulting action plans and the model validation process. The tasks are facilitated through cooperation and coordination with the second line.

The challenge with building this relationship is that the independence of internal audit must be protected. However, some CROs would like more “connectedness” with internal audit, in part because it helps develop a common perspective on risk exposures and agreement on the relative risks of management responsibilities between the second and third lines. The main avenue for cooperation tends to be the working committees where both the risk function and internal audit participate.

**What CROs say**

“We are largely independent. We share IA reports and takeaways as part of the risk assessment process.”

“Internal audit is very independent. We need more connectedness; they only use some of the information coming out of the second line.”

“Historically the third line did more of the second line work within the organization but that is shifting with the development of risk management.”
Section 4
Measures and models
Q10. For which of the following risks have you set quantitative limits?

Responses to this question clearly demonstrate the growing sophistication of views of risk appetites across the insurance industry. They are no longer expressed simply as qualitative statements.

Almost 80% of participants reported they have quantitative tolerances and limits for credit and equity risks; slightly less than 70% have limits for insurance and underwriting.

It is noteworthy that half of respondents reported that their companies have quantitative limits for operations risks. Measuring operational risk presents special challenges because of the diversity of risk types and the fact that loss events tend to cluster around the median of the loss curve. In addition, operational risk programs at many insurance companies are relatively new when compared to the banking industry. Insurance companies have only started in this area.

Q11. What is your primary measure of capital? How do you define economic capital?

The multiplicity of responses to this question reflects the diversity in the different objectives for internal capital adequacy assessment. Each measure allows the company to examine its current and future capital position through a different lens.

Not surprisingly, most companies use statutory capital as their primary measure, though they also use GAAP and economic capital measures, depending on the circumstances.

Looking at economic capital specifically, many companies use a one-year, market-consistent measure, though they also make adjustments to the economic capital results. More companies report using a hybrid measure to examine stress events, according to respondents.

What CROs say:

“We currently calculate EC, but have not deployed it much yet. We will ultimately integrate an economic view (not necessarily EC, per se) into pricing, performance measurement (RAROC), and capital allocation.”

“I would define it as ‘other.’ It is a modified economic approach that takes into account the longer life of the liabilities — a one year change with some smoothing elements.”

“In addition to different measures of capital, we use a volatility measure — to avoid death by a thousand cuts.”
Q12. How do you use stress testing and scenario analysis?

The use of stress testing and scenario analysis falls along a continuum. Some companies are “just getting started” or use it primarily to test investments, while other CROs report that they use it for “everything.” Despite these differences, all CROs recognize stress testing as a powerful risk management tool.

Respondents who said their organizations use stress testing only on a limited basis made clear that they were committed to expanding their stress testing capabilities in the future. Esprit d’escalier seems to be at work here; that is, some CROs clearly wish they had embraced stress testing sooner.

Many companies use stress testing under multiple scenarios to test or determine capital strength and/or to define when mitigation strategies should come into play. Respondents reported a wide range of probabilities in using stress tests, but a significant percentage cited using them in “one in 200 years” events. Scenario analysis is increasingly applied to examine the impacts of long-tail operational loss events, like natural disasters and cyber terrorism.

Q13. Do you have a formal model risk program in place?

Despite substantial progress over the past three years, insurance companies appear to lag banks in the model governance and validation processes. Part of the reason is that even as banks build out their programs, the methodology and approach to model risk management continue to be strengthened. There have been recent advances in regulatory expectations in a number of areas, including:

- Required documentation
- Model prioritization
- Performance testing
- Internal controls around the validation process
- Model risk reporting

A few companies continue to believe that model owners should have responsibility for model risk management and should be the ones to validate and test models. However, these companies are becoming a vanishing minority as first-line and independent second-line responsibilities become clarified in this space.

As demonstrated in the responses to question 6, CROs at companies with a well-developed second line are increasingly taking ownership of the critical function. Most companies use a prioritization scale of three to five categories. In companies with well-established programs, high-priority models, which require a higher level of objectivity, are validated through the use of outside parties or by the second or third line of defense. Similarly, CROs from such companies report having 1 to 10 staff members dedicated to model risk management within the risk function. One respondent expected model risk management staffing to grow from 10 to 50 during the next few years.
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Section 5
Regulation
Q14. What specific regulations, actual or pending, will present the biggest implementation challenge?²

The prospect of federal regulations presents the greatest concern. More than half of participants cited potential Federal Reserve Board regulations applicable to insurers, particularly in the areas of capital management, as their primary regulatory concern.

On the other hand, the concern stems from the growing realization that the new rules could eventually apply to all insurers, regardless of their designation as a SIFI. Most of the CROs who participated in the survey expect state and other federal regulators to level the playing field. According to one respondent, “You cannot have best practices for a SIFI and then another set for everyone else.”

The perceived inevitability of federal regulations is a theme that emerges from the responses to several questions. For instance, ORSA was listed as a concern because companies need to submit their report in 2015 and it is the first time that state regulators will have a comprehensive look at an insurance company’s risk management practices. The effectiveness of these practices in normal and stressed events will be of particular interest to state regulators. Some CROs raised questions on how the examination process would change now that the examiners have such sensitive information. Other CROs listed ORSA as a challenge because they expect the regulations to become more stringent over time.

² Because this question had multiple answers, the percentages of responses were calculated and rounded for a total of 100%.

What CROs say

“ORSA, GSII, IAIS. The first two are not big implementations, but pieces are moving around an awful lot.”

“Risk management is very specific to the company. However, regulators want commonality and consistency. It creates healthy tension.”

“If you are an NYIC examiner and one company is a SIFI and another large complex company is not, the review will be the same.”

“No problem with ORSA – keep it simple and practical.”
Q15. Does ORSA have value to the company beyond fulfilling a regulatory requirement?

ORSA is the one regulation about which CROs are optimistic, with a clear majority indicating that ORSA offers value to the business. However, it is worth noting that respondents believe its value is ultimately limited.

Many have completed a draft and held discussions with their regulators. Despite the relative ease of completing the report, some CROs expressed a concern in how the report would eventually be used by regulators.

While the majority of CROs claim ORSA has value, most believe its value is limited. Respondents believe ORSA offers value in several ways:

- Identifying possible gaps in risk management practices
- Aligning stress-testing assumptions through the business units
- Promoting comprehensive communications with the business

For instance, one CRO reported that the exercise helped identify a gap in operational risk processes. Another saw value in assembling the document, particularly in writing the narrative that needs to show consistency and uniformity between the three modules.

But another respondent questioned its value as a communications tool. Specifically, with more than 100 pages of text and appendices, the report can be unwieldy and daunting to a business stakeholder.

As for the ORSA report itself, risk management members have taken the lead in writing the report, but they stress it is a team effort with contributions pulled from many areas of the company. Most CROs reported that it would consist of a discussion of around 40 to 60 pages and an appendix of 50 to 100 pages. A small minority reported that their document would include more than 100 pages of discussion and 100 to 500 pages of appendices. About half of the companies will show the board a summary of the ORSA report and the other half will give it a full report. In all cases, the full report is available to the board.

What CROs say

“ORSA is very well aligned with what ERM would be doing anyway and is an effective way to communicate what risk management is doing.”

“It is helpful to align risk management activities from across the organization and increase the dialogue with the Board.”

“ORSA is not very useful; hopefully, it will eliminate other reports.”

“It is becoming the ERM document which we refer to for decision making and for communicating with the business.”

“The biggest value of ORSA goes to regulators. The value to us hopefully comes through better examinations.”
Section 6
Looking ahead
Q16. To which areas do you expect to devote significantly more attention during the next 12 months, compared to the past 12?³

Last year’s responses were evenly split among a variety of tasks. This year, there is more uniformity in responses; the Federal Reserve Board is expected to develop a capital standard for the insurance companies it oversees. With the common regulatory capital definition, those institutions would likely need to conduct stress tests for normal and adverse scenarios and use the results of that analysis to prepare their annual capital plans.

As a result, many CROs expect to devote significant time and resources to capital management, stress testing and risk appetite definitions.

Results show the emergence of stress testing as an important risk management tool, with fewer resources being devoted to economic capital. Integration and transparency with the business is an ongoing effort that will carry over into next year.

ORSA is conspicuously missing from the list of high-priority tasks. This is not altogether surprising, given that many institutions participated in one of the three pilots or have already produced an ORSA draft.

As with past years, companies expect to build or rebuild parts of their ERM frameworks. A number of respondents reported continuing work on the risk appetite, including aligning the corporate and business unit risk appetites. Given that baseline capabilities have been implemented, CROs are increasingly turning their attention to emerging risks.

What CROs say

“We have to understand how the firm is going to behave in certain states or conditions.”

“There is sensitivity to specific capital shocks to allow for better decision making.”

“Risk management is part science and part art and part defense and part offense. The overall objective is to optimize allocation of capital.”

“Going forward external stakeholders have to matter more.”

³ Because this question had multiple answers, the percentages of responses were calculated and rounded for a total of 100%.
Looking ahead

What CROs say

“We continue to grow as a partner with other areas of the organization and will have more influence within the organization.”

“Our responsibilities are increasing. There will not be an area where the CRO would not be expected to have a point of view. The CRO will bring all pillars of risk together.”

“Internally, the CRO’s role will be elevated in the stature and importance of the function and activities. The size of the organization and reporting responsibilities will increase. We will have more strategic involvement.”

“The CRO will move to a more well-defined role and clear responsibilities and authorities. Companies won’t get their money’s worth if they don’t give CROs that authority.”

“There is more integration with the business rather than risk management being an afterthought.”

Q17. Looking three to five years out, what do you think will be the biggest differences in the CRO role at that time compared to now?

Though the organizations surveyed are at different points in the evolution of the CRO role, there is broad consensus about the end point of the process. The majority of respondents believe that greater authority and accountability, increased influence and broader interaction are inevitable. Similarly, respondents expect that as the CRO role is better defined, it will become more visible and more accountable.

In the meantime, as the evolution continues, CROs are focused on performance and creating value for the business. As one respondent put it, “we are spending less time on defining and debating the role and approach and more time on executing our risk plan.” Similarly, CROs are more involved with strategy and capital management issues. Here again, risk management is rapidly becoming an integral part of operations and an essential element of managing the business.
Conclusion

The evolution of the CRO role looks very likely to continue along its current trajectory of increasing authority, influence and involvement in more business decisions. Those CROs capable of demonstrating value through such engagement will be best positioned to help their companies manage proliferating market risks and ongoing uncertainty around shifting regulations. Those regulations will present significant challenges and have profound impacts on the industry as a whole and on the role of the CRO at insurance organizations. Given this alignment with “macro” industry trends and drivers, it is no wonder that this year’s survey results revealed widespread operationalization of the CRO agenda at many insurers.
Thank you

EY wishes to express its appreciation to the CROs who took the time to participate in this year’s survey.

For more information about the survey and findings, please contact:

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