2015 European Insurance CRO survey
Findings and key themes
As a result of our interactions with group CROs across the globe, we have gained significant insights into the trends and forces impacting CROs’ agendas in the insurance industry today.

The increased standing of the role of CROs is a key theme of our survey; CROs have clearly positioned themselves in the C-suite of their organizations, as “third pillars” aligned with CEOs and CFOs. Their direct responsibility and accountability towards the CEO and their increased reporting authority to and presence at the board and board committees are testament to this.

Although this trend is common across geographies, the speed of evolution differs, particularly in terms of the CRO role in key decisions. The regulatory environment characterizing each market has played a key role: UK regulators, for instance, have been forerunners in pushing boards to actively consider the risk agenda as part of their decision making, closely followed by Europe and finally by the US. Particularly in the US, we have seen CROs firmly convinced that regulation will become even more intrusive as a result of the regulatory environment converging towards a harmonized regulatory framework closely mirroring the changes taking place across Europe via the implementation of the Solvency II Framework Directive.

Different regulatory approaches adopted in different markets do not solely impact on the speed of evolution of the role; implications in terms of capital management, implementation of the three lines of defense and firms’ focus on conduct and behaviors are some of the other key differences observed across geographies.

Now that the “heavy lifting” has been done, particularly in the UK, we see CROs shifting their focus to core business issues … or at least wanting to do so!

Surprisingly however, the lack of specific metrics to report on the effectiveness of the risk management function is another common theme across geographies. Although CROs consistently pointed at their increased interaction with the board, the quality of risk management information and the degree of involvement in key decisions as good indicators of success for their function, almost none have a formal way of measuring effectiveness.

It is clear that organizations have invested significantly in improving risk management capabilities in recent years, either through recruitment, training and development or new technology. However, if no formal way of measuring return on investment exists, how will CROs be able to continue to attract budgets for their functions other than as a non-discretionary regulatory response?

Although the questions above remain unanswered, and there is an expectation that regulatory pressure will not disappear, it is clear that CROs are confident about the importance of their role in the business. However, they do see (and desire) the role to evolve in the near future, although how it will evolve is another unanswered question with a variety of views being expressed.

We welcome the opportunity to share more details of these findings and discuss their interpretation for your organization.

Graham Handy, EMEIA Insurance Risk Leader
As their roles continue to evolve, group CROs must optimize their time to balance regulatory and strategic priorities.

The results of EY’s 2015 European Insurance CRO Survey make clear that:

- The standing and accountability of group CROs is increasing, with more active roles at the board level and greater participation in key decision-making.
- Enterprise risk management (ERM) is recognized as a key contributor to corporate strategy – with views of “what the business should be going forward” and “how the business should react to uncertain events.” Effective ERM frameworks can be defined as the “flip side of corporate strategy.”
- When it comes to compliance, group CROs are indispensable and there is no simple way to reduce this resource burden; to become more proactive and act more broadly, more (safeguarded) resources are required.
- Risk does not typically own technology budgets, but group CROs view technology as a useful lever for success. Technology priorities must be aligned for future effectiveness.

About the survey

- **Participants:** group CROs from 11 life, non-life, multiline insurance and reinsurance firms with material operations in Europe
- **Objective:** provide a point-in-time snapshot and insights about the current state and changing dynamics of risk functions, and the evolving role of group CROs

This survey report formalizes the results arising from the responses received by 11 major global insurance groups, and informed by over 60 further local CRO surveys undertaken across UK and US. In particular, we have focused our findings on the global insurance groups that hold material operations in Europe, which are therefore exposed to the European wave of change.
Key themes

1. **The standing of group CROs is strengthening across the market**
   The majority of respondents reports directly into the group CEO, with more formalized accountability from local business units’ CROs to the group CRO, either via a dotted or solid reporting line to the group CRO.

2. **The role of risk as a second line is now established, but the “independence versus involvement” debate persists**
   Demonstrating independence around “production,” “advisory” and “review” activities carried out by second-line teams drives the variety of models being applied. Internal audit (IA) is clearly a third-line function, but more work is needed to improve collaboration between risk and IA to achieve efficiencies when planning assurance activity.

3. **Regulatory intrusiveness will continue to “distract” group CROs**
   Group CROs seek a rhythm in driving and challenging the business direction. However, they must continue to respond to the regulatory agenda, with 36% of respondents citing the conduct agenda as a key priority for 2016.

4. **The ORSA is a missed opportunity – firms have yet to unlock its true potential**
   In principle, most respondents see value in the Own Risk and Solvency Assessment (ORSA). A handful have been able to capitalize on its true potential, but misalignment with the planning process, regulatory pressures and limited automation challenge organizations seeking to embed it.

5. **Although budgets are weighted towards people, group CROs are keen to strike the right balance when investing in technology and people**
   Group CROs stated their budgets are static or increasing, which suggests that organizations recognize the need to continue to refine their risk management operating models.

6. **Only 33% of respondents consider emerging risk management embedded in corporate strategy**
   Different approaches to emerging risk management are now in place, each adopted by about a third of respondents – a systematic approach to identification and management; day-to-day reliance on “smart people,” and a view that emerging risks are a possible distraction of finite resources.
The standing of group CROs is strengthening across the market

More influence, accountability and oversight

**GRCOs today:**
- Mostly report directly to group CEOs, not group CFOs
- Regularly present at board and executive management committee meetings
- Often take a leading role on key business issues (thanks to their role at the board risk committee)
- Provide oversight more broadly and challenge consistently across the group
- Have established more formalized reporting lines between group and business units for more consistent roll-out of risk frameworks and more transparency in escalation procedures

**To whom do you report?**

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What respondents say

“We have incorporated strong solid line reporting throughout risk globally, with dotted lines to local CEOs. Our peers are watching with (nervous) interest as the role and responsibilities of the risk function in the control framework is now uncomfortably clear.”

“Improving the gene pool and the ability of risk professionals to challenge their first-line colleagues has been one of the most important tasks and is now returning strong benefits.”

Key issue

**Membership at the board – two perspectives**

- Strong attraction for talent and stronger influence in the organization
- The CRO is an advisor to the board and should maintain independence
The group CRO sphere of influence

What is your role in the following processes?

- Reserving
- Technical provisions
- Reinsurance
- Stress testing
- Investments
- Business strategy
- Model governance
- Product approval
- Capital deployment
- Risk appetite
- Model validation
- Tolerance setting

What respondents say

“Culturally, everyone knows there has to be a second opinion recorded, and it is okay to disagree, but when there is disagreement there will be escalation.”

- Although risk appetite, tolerance and limit setting is ultimately owned and set by the board, the risk function is usually the custodian of the framework and plays a leading role in its design.

- Although risk’s role in areas such as investments, reinsurance and capital deployment continues to increase, ownership remains within the first line. However, in an increasingly complex environment, group CROs play an active role in providing boards with comfort that effective governance arrangements are in place, particularly around the firm’s key decision-making models.

- Group CROs stated their reluctance to formally “veto” a decision at a committee meeting. Examples of the group CRO voice do include standing requirements to:
  - Present a “sister paper” alongside any first-line recommendation paper to provide an independent voice
  - Notify the IA chairman of any overturning of recommendations made by risk to any Committees
  - Incorporation of a risk section as a part of any first-line paper

- These findings are similar to US survey results: it is worth noting that we have seen organisations in the UK (particularly those with more advanced ERM frameworks) starting to push ownership over stress and scenario testing design and tolerance setting to the first line, to ensure ownership and embedding of risk procedures, as well as increased involvement in the product approval process.
The role of risk as a second line is now established, but the “independence versus involvement” debate persists.

Key questions:
- Board membership versus meeting attendance?
- Explicit review protocols?
- How “clean” is the second-line team?
- How to advise while retaining independence?

Group CROs recognize the importance of independence for model validation particularly, ensuring proportionality in the process whilst meeting regulatory expectations.

What respondents say

“The bigger risk is overreliance on the model, to justify the wrong behaviors. The insurance industry has been weaned on the ability to manage the model and not the business.”

“Any good risk management function ought to be a valuable source of advice to other functions.”
Regulatory intrusiveness will continue to “distract” group CROs

Group CROs would rather devote their attention to embedding ERM and other strategic priorities

With evolving customer needs, prolonged low interest rates and a changing competitive landscape, CROs are prioritizing several key strategic areas. Yes, regulatory matters will always be on the agenda, but CROs express an ambition to increasingly focus on core business issues.

The group CRO agenda
- Cyber risk
- Forward-looking assessments
- Regulatory compliance
- Data management
- Conduct risk
- Automation

What respondents say

“The IT roadmap we executed has taken us this far, but we are now reassessing and taking time to evaluate our target architecture for the future – for more efficiency in systems, and more automation to free up resources.”

“S2 internal model encourages us to worry about the wrong things (e.g., shift towards low interest rates). There is a real strategic risk around new business, retention and when the geoeconomic environment changes.”
The ORSA is a missed opportunity – firms have yet to unlock its true potential

Only 20% of respondents consider ORSAs to be embedded in the business

Group CRO views on ORSA:
- It has value in informing the board on risk management, but there is more potential for influencing strategic decision-making.
- There is frustration with high levels of prescription from regulators (a challenge to effectiveness) and ambition to tailor the ORSA more closely to individual risk profiles.
- “Off-cycle” ORSAs are being considered to increase buy-in and use by executive teams.

Current weaknesses
- ORSA timelines are not aligned to business planning timelines
- No alignment between regulatory requirements and business needs
- Lack of projection capabilities for skills and systems
- Inability to articulate qualitative aspects

The future
- Enhanced capital projection capabilities – focus on multiyear projections and automation
- Alignment of ORSA and strategic, business planning
- Strengthening the link between risk appetite, capital management, product development and strategy

Does ORSA add value beyond satisfying a regulatory requirement?

What respondents say
“ORSA adds value because it is embedded in strategic planning. At this stage, however, the cost/benefit is overall negative. Cost should reduce going forward.”

“It is an illusion to think that ORSA is relevant to the business. The regulator has different needs to management and we should recognize the value of ORSA as a regulatory filing.”
The ORSA is a missed opportunity – firms are yet to unlock its true potential

The outputs of stress testing are seen as a valuable tool at the heart of the ORSA, but improvements can be made to make the process more relevant, effective and efficient

- Group CROs want to strike a balance between quality and quantity of stresses and scenarios being performed throughout the year.
- The focus has shifted towards streamlining the existing set of stresses and scenarios with increased involvement from the first line of defense – this will help drive clear understanding and articulation the management actions that would be implemented.
- Group CROs consistently state that real value from the stress and scenario testing can only be derived when it is relevant to the business. This means that all key risks must be captured in the process, with the results clearly articulated within the ORSA Report.

What respondents say

“You can have all the black-box output in the world but in the end you need tangible deterministic output that can be understood by business leaders and can be acted on.”

“This year local CEOs instructed to consider far fewer scenarios and work them through far more thoroughly – build action plans and ensure that they know what to do in case a scenario plays out. We recognize that local regulators may want more.”

Methods adopted for stress testing

- War gaming
  - 11%
  - With the full executive committee with a focus on key business risks, both quantifiable and non-quantifiable

- Collaborative approach
  - 78%
  - Buy-in and cross-functional input to determine “what we would do”
  - Working with strategy team

- Independent approach
  - 11%
  - Working independently within risk/finance to develop the analysis
Although budgets are weighted towards people, group CROs are keen to strike the right balance when investing in technology.

What group CROs are thinking:
- Despite the clear need for technology and automation, “people” remain the top budget item.
- Several firms lack dedicated technology budgets for risk.
- 50% of respondents will invest in building skills and competencies via training and development or external hiring.
- There is concern about existing systems coping with the increased demands that may arise with IFRS 4 Ph2, CCAR and stress testing.
- Automation of some repetitive processes would free up skilled resources for more analytical tasks.

What respondents say:
- “We are scratching our heads at the moment about where the line should be drawn, and the true scope for automation.”
- “Actuaries are 80% data gathering and 15% analysis - these are very expensive people. Surely we need it to be the other way around.”
Emerging risk management is not yet embedded in corporate strategy

Only 33% have adopted a systematic approach, due to concerns about ROI and “red herrings.” Missed opportunity for aligning risk and strategy?

1. Embedded and integrated with corporate strategy to drive action
   - Setting up of a dedicated emerging risks committee
   - Creating trend assessment committees to keep track of market developments
   - Conducting workshops in collaboration with the strategy team to identify key trends
   - Some qualitative scanning

2. Considered but lack a systematic process/approach
   - No formal process; emerging risks may be addressed on ad hoc basis
   - No qualitative scanning
   - Rely on SMEs (product owners, underwriters)

3. Not of significant concern to be prioritized
   - Questioning of merits
   - Policy owners responsible for their “horizons of risks”

What respondents say

“We find it hard to see how you combat individual biases without the use of a really robust mechanism that forces us to explore ‘unintended consequences’. Even then it’s not trivial.”
Other notable findings

Defining and assessing risk cultures

- Boards and risk committees are interested in “what risk culture looks like,” but few have metrics to measure or report on it.
- Human resources plays a leading role in assessing culture with risk applying a “risk lens” for insights relative to risk and control management.
- EY’s 2014 European Solvency II survey identified culture improvements as having the most potential benefit on risk management and decision making.
- Risk culture is not a current focus or priority for CROs in this year’s survey. Is the industry being complacent?

“Defining and assessing risk cultures”

Risk appetite

- Increased sophistication means all insurers have articulated quantitative limits in place for major risk categories (market, credit, insurance, etc.).
- Consistency between top-down risk appetite statements and bottom-up limits remains a challenge, but most CROs are satisfied that such consistency is ensured for key categories.
- As the focus shifts from prudential to conduct regulation, more advanced firms are developing conduct risk metrics in their risk appetite frameworks – with more CRO focus expected in the next year.

“There is concern on how to deal with the subjectivity that [formal measures of risk culture] entails.”

“Achieving consistency is hard, as it is very difficult to translate overall risk appetite goals in ‘dynamic’ limits.”
What CROs will be thinking about in the future:

- Flip side to strategy
- Real-time exposure analysis
- Horizon scanner
- Consumer champion
- Ambassador to the regulator
Bottom line: is risk adding value?

Currently, there are no formal mechanisms to measure and report on effectiveness, but when it comes to determining the value of risk, there is consensus that:

- The quality of interaction and ability of first line to articulate and use risk frameworks is a key indicator.
- Clarity and transparency of risk reporting is critical in that it helps management understand key risk issues impacting the business.
- Given the importance of stakeholder management, it is not surprising that CROs are focused on people and skills vs. developing infrastructure.
- Increased accountability to CEOs, access to the board and executive committees and involvement in key business processes are testament to the added value that risk functions can deliver.

What respondents say

“History has proved the case already, in 2002-03 when we had to come back from the brink and in 2008-09 when our strength allowed us to make acquisitions in a falling market.”

“We should be making ourselves redundant. If we succeed then the business wouldn’t need a second line.”

“The more you can embed risk into day-to-day operations, the less you need a specialist second line.”

How do you know that the risk function is adding value?

- Management dialogue/discussion
- Management understanding/risk management influence
- Integration
- Impact on strategy
- Stakeholder approval
- Other

2015 European Insurance CRO Survey
Common areas of debate among group CROs

CROs overwhelmingly are focused on investing in people and skills over infrastructure and IT.

- Does this point to a lack of maturity in the risk function operating models; should we expect more refinement in process, IT/Infrastructure, methodology and tooling to come once skill sets are finalized?
- Or is this always going to be the focus for an effective risk function?

Risk culture is an important consideration but is not emerging as a current focus or priority for CROs. Are we being complacent?

Using the right of veto as the CRO is often felt to be a last resort, and that using it means a “failure” somewhere along the line. Under what circumstances should the CRO veto something?

The CRO role five years from today will be:

- Customer champion
- Regulatory rule checker
- The “flip side” of strategy
- All of the above
- None of the above
- No different from today

Should the CRO be a member of the board? What are the implications for:

- Exerting influence and change
- Maintaining independence
- Attracting and retaining talent

Should the CRO own the production of balance sheet and capital results used in the firm to ensure true independence and control?
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EYG No. EG0288
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