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## Editorial

by Michael Steel<sup>1</sup>

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In a discussion with a CRO colleague earlier this year I was asked why The Geneva Association had a CRO Network and how did it fit into the wider CRO community. This is a great question and for my first editorial of the *Risk Management Newsletter* I thought that it would be helpful to look both at the history of the Network to understand why it was formed and how it helped develop the CRO community to where it is today, but also to look to the future to see how the Network and The Geneva Association can assist in the development of the global CRO community as it faces the many challenges ahead.

The industry has changed significantly since 2003 when the Network was formed and Walter Stahel, Bruno Porro, Eberhard Mueller and the early CRO pioneers created the community. Today the Chief Risk Officer role is firmly established within the industry (although it has many guises) and we have the CRO Forum and CRO Council as two leading pillars providing a coordinated voice for CROs, a sounding board for other industry bodies and leaders in the research and practical application of risk management. Joe Celentano, the current chair of the CRO Council, talks about the Council's goals and objectives and Eberhard talks about those initial meetings to set up the CRO Forum and his experiences of the development of the wider CRO Community over the last 12 years.

The CRO Assembly, now in its 11<sup>th</sup> year, is a key event for all CROs around the world to interact with each other and other experts in the fields of emerging risk. The 2015 conference was a great success and we run through a summary and key highlights from Jeffrey Barnes within this newsletter. Alongside this event, The Geneva Association helps to organise the Annual Round Table (ART) of CROs—the meeting which helped create the CRO Network. Over the years, the ART of CROs has become a more intimate practical workshop where CROs can discuss their own experiences in implementing risk management. The upcoming ART of CROs in Copenhagen will continue with this theme focusing on Risk Management beyond Solvency II.

During my early years as a CRO I looked for guidance on the establishment of a risk framework and creation of valuation metrics. Earlier this year Tom Wilson, Chief Risk Officer at Allianz provided this in his book *Value and Capital Management* which is an excellent guide as a "Handbook for the Finance and Risk Functions of Financial Institutions". At the end of the newsletter we provide a brief summary of his book which I am sure will become recommended reading across our industry.

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## The CRO Network

The Geneva Association established the CRO Network in 2003 in response to a need by the insurance industry and The Geneva Association's members to create a community which could debate topics of interest within the emerging CRO community. At the time, the Chief Risk Officer role was relatively new to the industry and only 17 of The Geneva Association's member companies had a CRO. There were very few forums in which to discuss the key differences between risk management within an insurance enterprise as distinct from other members of the financial service industry and even fewer to discuss the key risks and emerging risk-based regulatory landscape.

The first activity of the CRO Network was to reshape the *Risk Management Newsletter*, the forerunner for many of The Geneva Association's publications that we see today, to address more specifically the key risk topics affecting the industry. The second activity was to organise an Annual Round Table (ART) of CROs where the CROs could meet in person to discuss the challenges of implementing a risk framework within an insurance organisation. Walter Stahel, former Head of Risk Management Research at The Geneva Association, led the formation efforts for the Network and the global CRO community should be thankful for his efforts and persistence.

Following the second ART of CROs the group identified the need for more tailored research of a proprietary nature on specific risk management topics and it was decided that the larger member companies would form the CRO Forum to finance and channel this research.

The CRO Forum was established to operate independently alongside the CRO Network and has been very successful in not only leading some of the research areas but is also now seen as a leading advocate and advisor on risk management matters within the global insurance industry.

Recognising the need for a wider debate outside The Geneva Association's membership, The Geneva Association and Swiss Re proposed that an annual CRO Assembly be held at which the wider CRO community could meet with each other and with leading experts and academics in emerging areas of risk. Swiss Re hosted the first Assembly and Munich Re agreed to the second, beginning a cycle of Assembly meetings which remain the key CRO event in the calendar.

As the industry has developed, these early efforts have crystallised into main-stays within the industry and further efforts have been made to create a broader voice. In 2010 the North American CRO Council was formed to sit alongside the CRO Forum and offer a North American flavour to the risk management discussions. Joint efforts on areas of mutual interest such as 'risk appetite' are a sign of the community having an increasingly global view.

As we look to the future of the CRO Network, we are focusing on enhancing these foundations with a dialog with the wider CRO community. Where we see value we will add more forums for discussion and debate to ensure that the CRO community remains a strong cohesive group within our industry.

In parallel to these industry efforts The Geneva Association has continued to develop and expand its scope across areas of research and advocacy within the insurance industry, particularly focused on its four core research programmes (Financial Stability, Extreme Events and Climate Risk, Global Ageing and Liability Regimes).

## The CRO Assembly

In 2005 when the CRO Assembly was first held, the role of the CRO was still emerging with the insurance industry. Ten years later the CRO role is much more widespread (although it has a variety of guises from the CEO's strategic advisor through to head of compliance) and the risk management landscape has changed dramatically. As the landscape has changed, so has the CRO Assembly, assisting in the development of the role of the CRO, providing key education and guidance to the CRO community and facilitating the interactions with many key thought-leaders. Through the 2008-09 financial crisis the topics were dominated by the "what just happened?" question and the associated lessons learned; we then changed the dialog to impacts of the changing regulatory landscape and then to key topic areas such as the protection gaps and global ageing. This year's conference was a great success and thanks once again to Patrick Raaflaub at Swiss Re for hosting. The topic was "Technological and Societal Change" and we had key speakers in the areas such as digital "disturbers", cyber risk and emerging societal risks. Below is a review of this year's assembly.

## 2015 CRO Assembly Review

by Jeffrey Barnes<sup>2</sup>

*The article is based on the 11<sup>th</sup> CRO Assembly which took place on 18–19 November 2015 at the Swiss Re Centre for Global Dialogue.*

### **Is the insurance industry keeping pace with technological and societal change?**

In a world where individual consumers are the focus of digital development, the population-scale adoption of new technologies has resulted in new working patterns and business models. The future holds out opportunities for insurers, especially in the retail area, but new approaches, new offerings, for example in financial services, and new partnerships will be needed.

Various platforms exploit the possibilities offered by computers and smartphones to organise communities connecting providers of goods and services to consumers. Well-known examples are Uber, offering point-to-point transport through a smartphone app, and Airbnb, providing short-term accommodation. Already starting to rival incumbent firms in terms of market capitalisation, the new platforms are becoming an ever larger part of our economy. Since they do not conform to conventional corporate and organisational norms, however, they encounter some resistance. In addition, they are creating, and are themselves confronting, big challenges in the areas of regulation, taxation and social funding.

### **Addressing the data privacy and protection challenge**

Advancing digitalisation involves the collection of vast amounts of data on individuals. Some people are easy-going about this; others are wary. Even when the data is anonymised, it is essential for the organisations concerned to explain that their customers'/members'/patients' information will not be used to their disadvantage. If trust is not established in this way, it only takes a few suspicious individuals to unleash a storm of adverse publicity, as TomTom experienced a few years ago.

In the context of universal digitalisation, the question of privacy is fraught with difficulties. The European approach is restrictive and fundamentally different from the USA's more open view, and the two systems have clashed on the internet for years. Data protection law in Germany is especially strict and extremely complicated. Drafted largely in the 1970s, how can it be applied now to Web 2.0 or the Internet of Things?

### **Cyber security will enable growth**

Related to the issue of data protection is the growing threat of cyber risk. Since companies are attracted to locations where it is safe to do business, strong cyber security can be a key enabler for growth. Cyber hazard is just one of the risks that the world's energy sector is acutely aware of as it goes through a triple transition taking in decarbonisation, changes in market design and thinking on resilience.

### **The demographic challenge**

This rapid transformation of technology and working patterns is taking place against a background of ageing working populations worldwide. By 2050, only India among the emerging economies and the USA among the wealthy countries will have growing working age populations. The associated challenges regarding provisions for old age and long-term care are daunting. There is a danger, in Europe certainly, that a desire for the old stability and prosperity will result in attempts to block even beneficial societal change.

<sup>2</sup> Former Head of Swiss Re's Group Language Services.

## Envisioning the future of the insurance industry

How does the insurance industry fit into this world under transformation? At present, the global importance of insurance is undisputed. It is a mainstay of economic growth, contributes to financial stability and social cohesion, acts as a shock absorber and aid to recovery after adverse events, and it aids decision-makers as a credible provider of price tags for global hazards like climate change. But will it maintain its current relevance in the shifting landscape of technological and societal change? It has tough challenges to face. The property protection gap is enormous and growing. China's reform agenda slow-down presents a major tail risk, and Europe's political uncertainty also has tail-risk potential. Given the financial markets' dependency on liquidity, diverging central bank policies also constitute a key risk.

Some insurance products will be called directly into question. When robocars come onto the market, motor insurance will change radically as personal liability probably becomes an issue of product liability. Google, Mercedes and Volvo have already expressed their willingness to take on this responsibility. Big players are quite likely to self-insure, though for regulatory reasons they may still need reinsurance.

The future holds out opportunities for insurers, especially in the retail area, but new approaches, new offerings, for example in financial services, and new partnerships will be needed. The deployment of the latest technology, including optimal use of the smartphone, will be key. For some young people, this is already virtually the only acceptable means of communication.

### EARLY "SAVE THE DATE" for 2016 CRO ASSEMBLY

Next year's CRO Assembly will be held in Munich and hosted by Munich Re on 28–30 November 2016. We are currently working on an overall topic, agenda and keynote speakers and will provide updates through the *Risk Management Newsletter* and The Geneva Association website.

## ART of CROs

by Michael Steel

The first Annual Round Table of CROs was held in 2003 as a forum for Chief Risk Officers to gather to debate the practical challenges in the implementation of a risk framework and to discuss the emerging role of the CRO within the insurance industry. As the CRO community has developed since this time, it was adapted to sit alongside the CRO Assembly as an event to discuss the practical implications of risk management in a more intimate setting.

At the event CRO's and member of a CROs staff focus on the questions around "How does it work in practice?" and "What were the challenges faced in implementing the theory?" rather than on the macro-level topics discussed at the CRO Assembly. Topics such as the risk management through the financial crisis, risk management challenges in product development, measuring/managing risk culture and use of indexes to hedge natural catastrophe risks are among the varied topics that have been discussed over its 12-year history.

Over the years the wall of regulator changes has dominated the CRO landscape so in 2016, as we cross the Solvency II implementation hurdle, the ART of CROs will focus on "Risk Management beyond Solvency II", allowing us to get back to the roots of risk management and focus on the value-enhancement associated with good risk management practices.



## ANNOUNCEMENT of 2016 ART of CROs

The 2016 ART of CROs meeting will be held in Copenhagen from 13 to 15 April 2016. Our host will be Annette Olesen, CRO at Nordea, and the title of this year's conference is "Risk Management beyond Solvency II". The aim of the conference is to discuss the benefits of risk management as a value creator within organisations and move forward from the experiences of the Solvency II implementation which has dominated our risk management landscape for the last few years.

## CRO Forum

by Eberhard Mueller<sup>3</sup>

It was in Vouliagmeni (Greece) in October 2003 when during the Annual Round Table of Chief Risk Officers (ART of CRO's) the idea was born to create the CRO Forum. The ART of CROs was part of The Geneva Association's Chief Risk Officer Network for a couple of years when the idea—sponsored by Raj Singh (then CRO of Allianz)—was to have a voice for Europe's leading CROs. In the nice environment of one of Vouliagmeni's luxury hotels the following companies were the so called "founding members":

Aegon, Allianz, Aviva, AXA, Converium, Fortis, Generali, ING, Hannover Re, ING, Munich Re, Prudential PLC, Swiss Re, Wintherthur, and Zurich.

It is interesting to compare this with the current "full member" list:

Achmea, Aegon, Ageas, Allianz, Aviva, AXA, Generali, Groupama, Hannover Re, NN, Munich Re, Prudential, Swiss Re, Unipol, and Zurich.

The only "surviving" CROs in their original role from the very beginning until the end of 2015 were Tom Grondin from Aegon and Eberhard Müller from Hannover Re. Both will give up their CRO positions by the end of 2015: Eberhard retires and Tom will change position.

Apart from the 15 "full members" there are 10 associate members (no voting rights on governance issues):

ACE, AIG, Legal & General, Lloyds Banking Group, Lloyd's, Old Mutual, RSA, SCOR, UNIQA, and MAPFRE.

It was decided to restrict the current number of members to 15 (full members) and 10 (associate members) in order to maintain the very effective and productive working environment—especially for the quarterly full day meetings, but the entry hurdles are high anyway: EUR 10 bn net earned premiums or EUR 50 bn in assets for full members (half these amounts for associate members), a CRO or comparable position with representation power, a fully implemented economic internal model and in case of full members activities in at least five countries.

In 2014 the CRO Forum celebrated its 10<sup>th</sup> anniversary in Bologna with a very special highlight: a visit to the Ferrari factory and a presentation of Ferrari's Formula 1 team risk management. Our keynote speaker for this meeting was Karel von Hulle—the "Godfather of Solvency II". And what we appreciated all over the years was the very clear voice of Karel: he always made clear his "likes" and his "dislikes". When I dared to ask him about the status of Group Supervision after a while his answer was: "Well ... Group Supervision ...".

There are three workstreams of the CRO Forum:

1. championing best practice in risk management to advance business

<sup>3</sup> Managing Director, Division Leader Group Risk Management and CRO at Hannover Re.

2. alignment of regulatory requirements with best practice of risk management
3. providing insight into emerging and long-term risks.

In each category several topics are addressed through working parties composed of volunteers from members and/or their delegated. Usually these activities lead to publicly accessible publications under [www.thecroforum.org](http://www.thecroforum.org) (publications section).

Throughout the years there are meanwhile 88 pieces contributing to the publication list. The topics addressed from the very beginning (2004/2005) were: Model Benchmarking (Allianz, AXA, Swiss Re), Diversification and Fungibility of Capital (Aviva, ING) and Risk Mitigation (Munich Re, Wintherthur, Zurich). Also the Emerging Risk Initiative (ERI) of the CRO Forum regularly contributes papers, e. g. on Climate Change (2006), Terrorism (2007) and Pandemics (2007). Meanwhile nearly every “hot topic” is addressed: Critical Information Infrastructure (2008), Carbon Nanotubes (2010), Work-related Stress (2010), Environmental Liabilities (2010), Longevity (2010), Nanotechnology (2010), Power Blackouts (2011), Endocrine Disruptors (2012), Country Risk (2013), Food Supply (2013), Cyber Risk (2014).

One of the miracles of the CRO Forum is the ability to overcome company specific views and to collaborate as “one voice”—be it for arguing with regulators or for setting a common ground for best practice.

Recently we started to monitor the download activity for our published papers.

The “all time high” is claimed by “Establishing and Embedding Risk Appetite: Practitioner’s view” (published December 2013), followed by “Principles of Operational Risk Management and Measurement” (September 2014) and “Cyber Resilience: The cyber risk challenge and the role of insurance” (December 2014).

Over the years we have grown to such a respected partner in risk management discussions that we finally decided to incorporate ourselves as an association under Dutch law, situated in Amsterdam, Netherlands.

While this was a sometimes “funny” legal exercise (I never had heard about an “apostille” before, which is some sort of legal certificate for your legal certifier...) it finally was successful. On 30 November our current chairman, Unipol’s Renzo Avesani advised us that on this very day at 16:07 the CRO Forum Association has been incorporated and became operational. This undoubtedly will create the foundation for a brilliant future out of a brilliant past!

## North American CRO Council

by Joseph E. Celentano<sup>4</sup>

The North American CRO Council (“the Council”) is a professional association of Chief Risk Officers (“CROs”) from leading insurers based in the United States, Bermuda, and Canada. Member CROs represent 30 of the largest Life and Property and Casualty insurers, and represent approximately 75 per cent of the U.S. insurance industry by assets. The Council was formed in 2010 to provide a unified voice to ensure that the complex web of evolving risk management standards, stemming from the financial crisis and development of Solvency II, is appropriate for the economic and operating realities of North American insurance groups. The Council also seeks to develop and promote sound enterprise risk management practices within the insurance industry.

The Council has a clear set of objectives in sponsoring an alignment of regulatory/rating agency requirements with the sound industry risk managing practices, promoting the development and value-recognition of risk management initiatives, and ensuring that the North American CRO community is a part of the discussions on the evolving accounting landscape.

<sup>4</sup> Senior Vice President, Enterprise Risk Management & Chief Risk Officer Pacific Life Insurance Company.



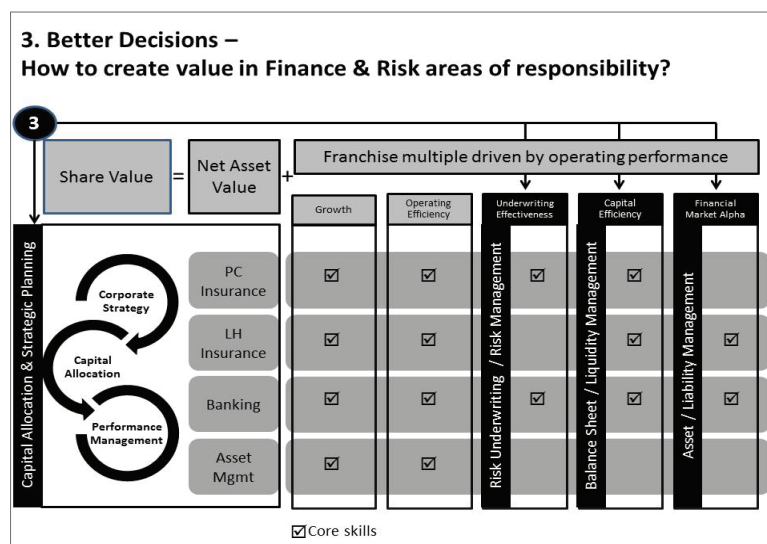
The Council is currently focused on six key workstreams. Four of these are engaged in the development of sound risk management practices within the industry: Model Risk, Big Data, Cyber Risk and Operational Risk; the remaining two workstreams are focussed around “external affairs” of state, and international and federal regulation. The Council liaises with the European-based CRO Forum on topics of mutual interest and it holds an annual joint meeting to enhance future efforts in areas of mutual interest.

## Book Summary: *Value and Capital Management*

review by Michael Steel

Tom Wilson’s new book<sup>5</sup> is described by the author as “A Handbook for the Finance and Risk Functions of Financial Institutions”. It contains three core sections around how CFOs and CROs can create metrics to yield “better information” about a risk portfolio and associated capital; how this in turn provides “better insights” and both in combination assist financial services firms to make “better decisions”. Tom provides an extensive analysis of the Risk Adjusted Performance Metrics and valuation approaches, outlining both the history behind the creation of metrics and the journey that led the financial services industry to those in common use today. He provides an overview of the core differences between different subsections of the financial services industry (Property & Casualty Insurance, Life Insurance and Banking) and then uses his own experiences as the CRO of Allianz SE to pull all of these together, providing clear examples of how the approaches are used in a diversified financial services firm in practice.

Within the book Tom uses a framework to outline the responsibilities of the finance and risk functions within capital allocation and strategic planning in assisting a firm make better decisions as illustrated in the diagram below.



<sup>5</sup> *Value and Capital Management: A Handbook for the Finance and Risk Functions of Financial Institutions*, by Thomas C. Wilson, Wiley, ISBN: 978-1-118-77463-2, 720 pages, July 2015.

This framework provides a valuable backdrop to the discussion of the many different theoretical approaches to capital allocation and implementing strategy but throughout the book Tom brings this topic to life by giving practical advice on the implementation of such a framework—advice that can often only be learned through actual experience. Areas such as implementing a framework when there are competing capital requirements from internal economic models, regulators are rating agencies or how strategic thinking fits into the planning cycle are valuable lessons.

Tom uses the real world examples of past financial crisis to illustrate key facets of risk and financial management and covers on a wide variety of areas of a risk framework from risk governance through to operational risk, but highlights Risk Culture as a key topic on the agenda of every CRO. Tom provides great advice as to why this is the case “While I believe that a strong ERM framework is necessary, it is not sufficient. My strong conviction is that there is no ERM framework—no additional reports or heat maps, no risk strategies and risk appetite statements, no controls or separation of duties and no additional measuring activities—which will be truly effective in combating something as amorphous and damaging as a dysfunctional risk and business culture.”

The book provides excellent advice and will no doubt be seen on the bookshelves of both the practitioners and scholars of our industry and the wider financial services sector.



## THE RESEARCH PROGRAMME ON RISK MANAGEMENT

The Risk Management Research programme is an integral part of The Geneva Association's dialogue with economic and academic actors in order to emphasise the role of insurance in a modern service economy.

The focus of the Risk Management programme is:

- to provide a platform between the insurance community; the engineering and academic communities; and policymakers to discuss issues on balancing risks and opportunities;
- to be a facilitator for the chief risk officers (CROs) of The Geneva Association and CROs in general;
- to foster the use of risk assessment tools and risk management in new fields of application; such as policymaking;
- to promote the concept of the insurability of risks as the "natural" borderline between State legislation and the market economy;
- to identify new opportunities for insurers in the emerging sustainability concept in order to enlarge the field of insurable and insured risks; and
- to research and illustrate the new risks in the emerging service economy, based on an extended performance responsibility of economic actors.

### The Geneva Association

The Geneva Association is the leading international insurance think tank for strategically important insurance and risk management issues.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator. It is the leading voice of the largest insurance groups worldwide in the dialogue with international institutions. In parallel, it advances—in economic and cultural terms—the development and application of risk management and the understanding of uncertainty in the modern economy.

The Geneva Association membership comprises a statutory maximum of 90 chief executive officers (CEOs) from the world's top insurance and reinsurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policymakers, regulators and multilateral organisations. The Geneva Association's annual General Assembly is the most prestigious gathering of leading insurance CEOs worldwide.

Established in 1973, The Geneva Association, officially the "International Association for the Study of Insurance Economics", has offices in Zurich, Switzerland and is a non-profit organisation funded by its Members.

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## FORTHCOMING CONFERENCES OF THE GENEVA ASSOCIATION

### 2016

#### February

**26 Zurich** **32<sup>nd</sup> Regulation and Supervision (PROGRES) Seminar**, "Insurance and Financial Stability: a growing agenda"

#### March

**16-17 The Hague** **18<sup>th</sup> Meeting of the Annual Circle of Chief Economists (ACCE)**, hosted by NN Group N.V.

#### April

**14-15 Copenhagen** **13<sup>th</sup> ART of CROs**, "Risk Management beyond Solvency II", hosted by Nordea

#### June

**9-10 Rome** **43<sup>rd</sup> General Assembly of The Geneva Association**, hosted by Generali Group and Vittoria Assicurazioni (Members only)

#### September

**tbc New York** **10<sup>th</sup> Meeting of The Geneva Association's Chief Investment Officers**, hosted by XL Catlin Group

**19-21 Nicosia** **43<sup>rd</sup> Seminar of the European Group of Risk and Insurance Economists (EGRIE)**

#### October

**7 London** **12<sup>th</sup> Symposium on Insurance Strategies**, hosted by Lloyds

#### November

**3-4 Hannover** **13<sup>th</sup> Health and Ageing Conference**, "Underserved consumers—Insurance solutions to close the health and longevity protection gap", hosted by Hannover Re

**16-17-18 Munich** **12<sup>th</sup> Annual Liability Conference of The Geneva Association**, hosted by Munich Re

**28-29 Munich** **12<sup>th</sup> Chief Risk Officer Assembly**, hosted by Munich Re