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Increasing Authority and Higher Organisational Profiles: 2014 Insurance CRO Survey[1]

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While the insurance sector has largely recovered from the economic impacts of the financial crises of 2008–2009, the risk management landscape remains forever changed. This is nowhere more evident than in the changing stature, authority and visibility of chief risk officers (CROs) across the industry.

The crisis afforded CROs the opportunity to demonstrate their value—an opportunity many seized by helping to de-risk balance sheets and navigate their companies through the turbulence. Today, intensifying and constantly changing regulatory, economic and competitive challenges means their skills remain in high demand. Indeed, there is a pervasive sense across the industry that risk management (and therefore CROs) have become essential to nearly all aspects of the business.

To understand the changing landscape, Ernst & Young (EY) insurance risk analysts interviewed chief risk officers and senior risk executives from more than 20 North American insurance companies.[2] Collectively, the companies have significant business operations in all major sectors of the insurance industry, including property and casualty and life business. Further, respondents came from both mutual insurance and stock companies and from organisations under different regulatory regimes. We asked these executives questions related to CRO roles, regulation, organisation, risk quantification and future outlook.

The survey results highlight the ongoing evolution of the role and confirm the increasing impacts of regulations that resulted from the financial crisis. The events of a few years ago are still shaping the agendas of many CROs, even as their activities focus to a greater extent on the effectiveness of risk management policies and processes. Further, they are spending more time with their boards and senior business leaders—a fact that underscores the increased impact of many CROs on the business and that industry leaders have become more aware of CRO capabilities. That CROs are involved with more types of business issues is a testament to the value they have been adding to their organisations in the last several years and a harbinger of the opportunities that lie ahead.

We conducted the survey via interviews from October through December 2013 against the backdrop of increasing calls for coordinated regulatory regimes at national and international levels. As such, the answers reflect many of the mega-trends and major developments that were taking place in the broader sector during that time. It is particularly important to note that the majority of surveys were conducted before the release of the most recent report from the National Association of Insurance Commissioners (NAIC) regarding the content recommended for inclusion in the Own Risk and Solvency Assessment (ORSA) reports. Similarly, the Federal Insurance Office (FIO) released its report about the modernisation of insurance regulation after most of the surveys were completed. It is likely that insurance CROs may be rethinking their views on critical regulatory issues.

Several major themes can be seen in this year's results:

The expansion of CRO authority

CROs are spending more time interacting with boards and senior management. This higher organisational profile shows that insurers have on their radars a broader range of issues—including emerging risks such as cyberterrorism

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[2] Ernst & Young (2014) Increasing Authority And Higher Organizational Profiles: 2014 Insurance CRO Survey

and data privacy. More important, it seems that these risks are more clearly perceived and considered more significant by the highest levels of executive leadership. That is certainly true when the 2014 survey results are compared with those from previous surveys. This may be evidence of CROs' success in identifying such risks and clarifying their potential impact on the business. There is a growing recognition that CROs bring a forward-looking perspective and a unique set of analytical tools that can help leadership understand the implications of emerging risks. In other words, CROs have seized the opportunity highlighted in survey results from 2013 and the trend of rising CRO prominence has continued.

One survey respondent described the evolution this way: "The CRO role is changing from being a 'brake' to being a 'copilot'. More knowledge of capital management and financial management will be required for CROs as they become decision-making members of the executive suite."

The seismic shift in both domestic and international regulations

It's difficult to overstate the potential impact of regulatory changes. Survey respondents described their effects as "tsunamis," and are clearly spending a lot of time thinking about the new regulatory regimes. As such concerns move up the corporate agenda, CROs are being asked to lead preparations and organise broad frameworks for the cumulative and interrelated effects of different layers of regulations. Efforts to comply with the ORSA recommendations are ongoing, but most companies are confident they have adequate plans in place and will meet the deadline. There is also a shared belief that the long-discussed international capital standards and group supervision will soon be an everyday reality. On the domestic front, there is a small but growing group of companies that want to upgrade the state-based regulatory system in the U.S., perhaps through the adoption of a hybrid model. These themes are being echoed across the industry. For instance, in an August 2013 report, the Financial Stability Board (FSB) criticised the state-based regulatory system and called upon the federal government to assume a greater role. The partial convergence of U.S. and international regimes is increasing the urgency of finding a common framework.

As one survey participant put it, "Trying to comply with changes in regulatory and accounting/actuarial environments at the same time is impossible. There is no one regulation that presents the biggest challenge, but rather the combination of all at the same time that makes this a hugely challenging process."

Shifts in the CRO focus—from survival to effectiveness

While low interest rates remain an issue, risk-management dialogues have shifted away from company survival (which was common in the immediate aftermath of the financial crisis) towards a more strategic and longer-term view of risk management effectiveness and decision support. There is a sense that balance sheets have been mostly de-risked to their desired level and investments are performing as expected. Thus, CROs can invest a higher proportion of their time and energy in other areas, such as seeking ways to embed more data-driven and analytics-based practices within their operations. The key question for many CROs has shifted from "are we doing the right things?" to "are we doing things right?" They are also seeking new patterns of engagement with the business. One survey participant commented that "the key is to improve dialogue with the board and key stakeholders on risk, and increase board knowledge of risk management."

Overall, the results make clear that the ongoing "risk journey" has entered an important new phase and that CROs will continue to have a seat at the table as their agendas and charters are aligned to the industry's top concerns. Thus, the evolution of the role of the CRO seems certain to continue. A diversified set of responsibilities and increasing priorities will place a premium on communication and lead to more direct engagement with the board and senior business leadership. Meanwhile, the proliferating risks faced by insurers are likely to fuel further expansion of authority for CROs, as well as influence the ways they interact with the business.

At the same time, it is impossible to overestimate the profound impacts of regulatory change. There can be no doubt that CROs have a larger role to play—as well as more value to add—in shaping the conversation with regulators and in helping their companies prepare for compliance with these new demands. Despite the turbulence and shifts that CROs face in their daily jobs, it is no coincidence that their increased focus on the effectiveness of their efforts resulted in raising the organisational profile of the risk management function and increasing its value contribution to the business.