



# **Charting the evolving role and authority of the Chief Risk Officer**

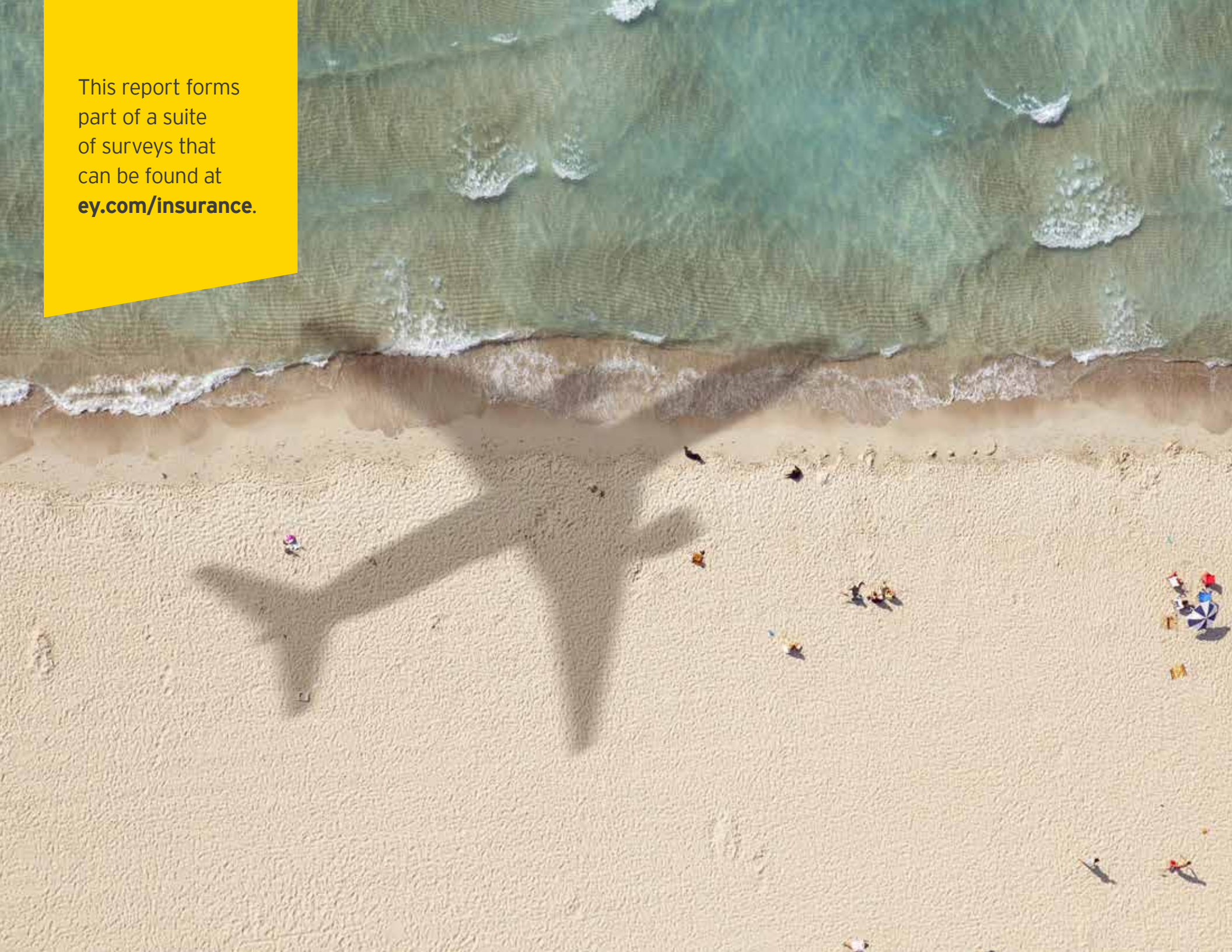
2016 Bermuda Insurance CRO Survey

**Findings and key themes**





This report forms  
part of a suite  
of surveys that  
can be found at  
**[ey.com/insurance](https://ey.com/insurance)**.



An aerial photograph of a beach with people and waves. The image shows a sandy beach with several people scattered across it. Some are sitting, some are standing. The ocean is visible with gentle waves washing onto the shore. The water is a light blue-green color, and the sand is a light tan color.

# Introduction

## About this report

This 2016 Bermuda CRO survey is the first survey targeted at insurance CROs operating in Bermuda. This report is part of a wider set of EY publications on the role of the CRO across the North America, EMEIA and Asia-Pacific regions and is aimed at gaining insights into the current structure and role that risk functions play in their organizations. In particular, the survey aims at:

- ▶ Assessing CROs' ability to contribute indirectly to value creation
- ▶ Identifying key challenges CROs face and their priorities as a result of changing regulatory requirements and unstable economic and political environments
- ▶ Identifying the key priorities of CROs in the short and medium term

We hope this survey provides our clients with insights on how their peers are dealing with big-picture risk issues today and how they are viewing the future direction of the CRO role in the insurance sector.

## Our respondents

We spoke to a spectrum of leading life and non-life insurance companies, reinsurers and prominent groups that specialize in multiline insurance business generating sizable premiums and with an extensive global reach.

Our survey captures responses from 11 insurance CROs at firms with the following characteristics:

- ▶ One Bermuda retail insurer, with operations primarily across Bermuda and the Caribbean
- ▶ Five (re)insurers headquartered in Bermuda with global operations
- ▶ Four (re)insurers headquartered in Europe with Bermuda operations
- ▶ One Bermuda-based life insurer

Each of the firms interviewed is unique in how it is structured, leading to interesting differences in the role played by CROs at these firms.

EY sincerely thanks the CROs and companies that shared their time and insights for this year's survey.



# Key themes

## 1

**The role of the CRO is now established, but views on the CRO's fundamental role vary**

When asked to describe the fundamental role played by the CRO, responses varied among respondents. However, consensus exists over the need for risk functions to be a "trusted partner" to the business to enable success.

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## 2

**Solvency II poses challenges but has not been a game changer for Bermuda CROs**

Although CROs have expressed confidence in their ability to evidence compliance with the new regulatory regime, CROs consider the volume of change in general as a challenge and their objective is primarily to be market consistent.

**Page 6**

## 3

**Bermuda CROs do not see the value of defining "hard" metrics to measure the value of risk**

Consistent with the findings arising from our global CRO survey, Bermuda CROs do not have a formal suite of metrics to measure the value delivered by the risk function. However, softer metrics are increasingly being considered to determine value creation.

**Page 8**

# 4

**Risk appetite remains an area for improvement so that it is effectively embedded**

There is a general sense among our respondents that senior management understands risk appetite, to the extent that it's relevant to them. CROs should continue to work to promote effective communication across the organization, making the appetite more operational and tangible.

**Page 10**

# 5

**The approach to emerging risk identification and reporting varies greatly among participants**

We note varying degrees of maturity in our respondents' emerging risk processes, with the identification of emerging risks often being a "subjective call" from business participants.

**Page 12**

# 6

**All our respondents have adopted a formal three lines of defense governance model**

Although governance models have converged toward the three lines of defense principles, challenges still exist in their effective implementation throughout the organization.

**Page 14**


# 7

**People and skill sets will remain a priority for investment**

More analytical and data mining skills are considered as key requirements for risk professionals going forward, together with the appropriate understanding of the business to enable effective challenge to first-line teams.

**Page 16**

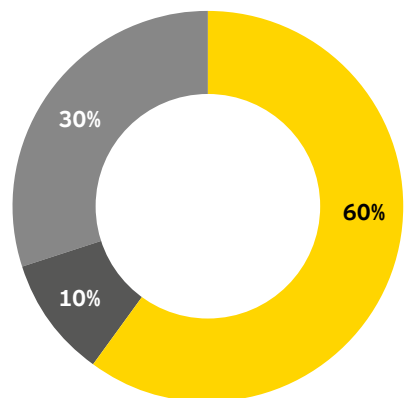
# 1

A photograph showing a person's legs and shorts in the foreground, standing on a boat. In the background, a small seaplane with the registration 'C8-SEA' is on the water under a cloudy sky.

The role of the CRO is now established, but views on the CRO's fundamental role vary

- ▶ 60% of CROs have a direct reporting line and accountability to the CEO.
- ▶ 100% confirmed their unfettered access to the board risk and audit committees.

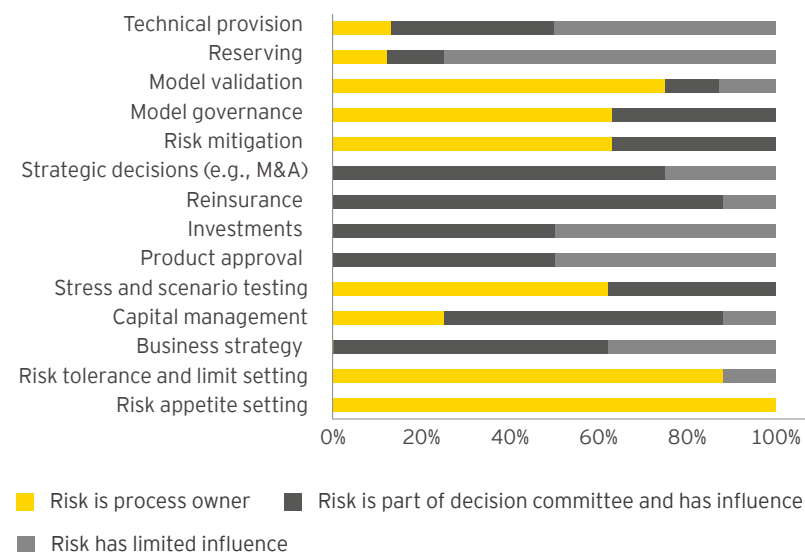
## To whom does the CRO report?



■ CEO ■ CFO ■ Group CRO

- ▶ CROs play a leading role in traditional risk processes (e.g., risk appetite and tolerance setting), which is consistent with what we have observed in the US, Europe and Asia-Pacific.
- ▶ When considering other key business processes, CROs are confident in their ability to influence decisions even where the risk function is not seen as the process owner.
- ▶ When asked to describe their fundamental role within their organizations, responses varied among respondents.

## Risk management function by process



## What do CROs say?

**When asked to describe their fundamental role within their organizations, responses varied among respondents.**

“The role of risk is about informed decision-making, to learn from the data to make better decisions in the future.”

“Its primary focus is to increase the ability of the business to meet the business plan. The function is designed to challenge decisions to make sure we achieve our business plan targets.”

“We view ourselves as partners and help make better risk-based decisions – we are not a compliance function.”



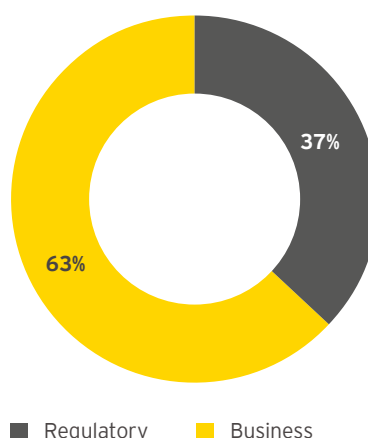
Solvency II poses challenges  
but has not been a game changer  
for Bermuda CROs



Although CROs have expressed confidence in their ability to evidence compliance with Solvency II, there is a common view that the volume of change in general may be challenging. Encouraging market consistency and avoiding being an outlier are key objectives for insurance CROs.

- ▶ Subsidiaries of European insurance groups in particular have been able to significantly leverage the work already performed at Group to comply with Solvency II.
- ▶ CROs pointed to the increased intensity of risk reporting requirements and the implementation of the Economic Balance Sheet as the two most material changes they had to make in response to the implementation of the equivalence regime.
- ▶ One of our CROs noted that one of the consequences arising from Bermuda obtaining Solvency II equivalence can be seen in the regulatory approach adopted by the Bermuda Monetary Authority (BMA).
- ▶ As opposed to their North American and European counterparts in particular, Bermuda CROs are overall satisfied with the level of regulatory intrusiveness.

**Time spent on average on the regulatory vs. business agenda**



## What do CROs say?

"We are already Solvency II compliant because of the syndicate in London. Our focus has been on ensuring the model is used and fit for purpose."

"EBS trial run was probably the biggest challenge. We leveraged a lot from the syndicate, and therefore, we have had little challenges from a Pillar 2 perspective."

"We have a good regulator. Things are changing, and we feel comfortable pushing back when things are not appropriate/proportionate to us."

# 3



Bermuda CROs do not see the value of defining “hard” metrics to measure the value of risk

- ▶ Consistent with the findings arising from our CRO survey globally, Bermuda CROs do not have a formal suite of metrics to measure the value delivered by the risk function.
- ▶ When asked how they know that the risk function is creating value, CROs provided a wide range of different responses.

#### **Common soft metrics considered by CROs to measure value creation:**

- ▶ CROs' performance appraisal
- ▶ Use of risk metrics in underwriting decisions
- ▶ Risk function's involvement in key decisions
- ▶ Variances to budget being kept to a minimum
- ▶ Regulatory feedback
- ▶ Feedback from board of directors

#### **What if CROs do not define clear metrics to measure and monitor value creation?**

Given risk is not immune from cost reduction pressures impacting other business functions, it is more important than ever that a strong case be made to attract investment.

## **What do CROs say?**

"No real metrics in place – we get down and do it."

"We stop value destruction. We don't have formal metrics, but we have found things that others hadn't in the past."

"We try to track the ROE over time of each business, grow the businesses with good ROE and shrink those with low ROE by looking at the profitability."

"Risk adds value when people look at things in different ways."

"How can you prove that you have avoided what was avoided?"



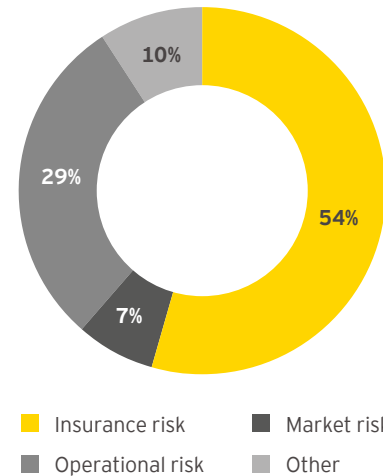
An aerial photograph of a tropical coastline. The top half of the image shows a lush green forested landmass meeting a narrow white sandy beach. The water is a vibrant turquoise color, revealing a coral reef. A small, dark silhouette of an airplane is visible in the water. A large, bold yellow number '4' is overlaid on the top left corner of the image.

4

Risk appetite remains an area  
for improvement so that it is  
effectively embedded

- ▶ When we asked CROs about the split of time allocated to each risk category, we note that their attention is largely skewed toward insurance risk.
- ▶ Only one CRO allocates more than 75% of his time to the management of operational risk.
- ▶ Interestingly, we have not seen a high level of involvement of CROs in the area of cyber risk to date.
- ▶ Two CROs in our sample have developed formal risk appetite statements for cyber risk, supporting the management of cyber risk both as a threat as well as a line of business (see page 19 for more details on cyber risk).

**Average percentage of time allocated by CROs to each risk category**



## What do CROs say?

"It's not embedded. It's difficult to get people's attention outside of their core specialties. We report against tolerances, and that's how people know how we are performing against appetite."

"In need of better communication surrounding risk appetite, but there is a policy document with risk limits that is circulated."

"It's about communication and reinforcement."

- ▶ All our CROs expressed confidence that risk appetite is well understood by the board and the management team.
- ▶ Only 33% of our respondents believe they have reached full consistency between top-down statements and bottom-up limits, while the remainder of our participating CROs believe more work is needed to fully embed risk appetite in the decision-making process at all levels of the organization.
- ▶ Particularly with respect to the operational risk appetite, CROs acknowledge the need for continued investment in training and communication to make it more tangible and clarify the implications for the business arising from a change in appetite agreed upon by the board.

## Case study

### What did one multinational corporation do to close the gap on operational risk?

- ▶ Encourage a culture where people "really care about it"
- ▶ Use vehicles such as the risk committee to act as "police" to promote accountability
- ▶ Confirm the right "tone from the top"
- ▶ Have risk professionals who regularly prioritize what to focus on
- ▶ Engage early with the business to operationalize risk limits



# 5

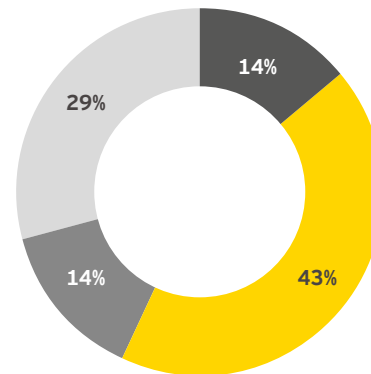


The approach to emerging risk identification and reporting varies greatly among participants



- ▶ While emerging risks feature as a standing item on the board risk committee agenda for all of our respondents, frequency of reporting to the board varies considerably across firms.
- ▶ Only two respondents have a formal framework in place for the identification and reporting of emerging risks, with an emerging risk log in place that is regularly reviewed and updated by various business functions.
- ▶ The majority of our respondents confirmed that the identification of emerging risks is more subjective in nature, in the absence of a standardized, rigorous monitoring and identification process.

### How often does the topic of emerging risks appear on committee meeting agendas?



■ Monthly
■ Quarterly
■ Biannually
■ Annually

#### Methods for emerging risk identification:

- ▶ General awareness and conversations with first-line teams
- ▶ Emerging risk log in place with regular updates from various functions
- ▶ Group driven
- ▶ CRO assessment

## What do CROs say?

“No specific framework – it’s a subjective call from business participants.”

“We focus on those we think we are exposed to.”

“We use the risk register as a starting point to see how new developments may impact the risk profile.”

# 6



All our respondents have adopted  
a formal three lines of defense  
governance model

- ▶ Of our respondents, 100% confirmed they have adopted a formal three lines of defense model.
- ▶ In theory the model works well, and CROs are largely satisfied that the level of collaboration among control functions when implementing the framework is appropriate, particularly with respect to the collaboration between risk and internal audit.

**Evidencing independence remains the biggest implementation challenge, according to our respondents**

- ▶ The need to evidence independence between activities undertaken by first-line and second-line teams resulted in different structures being implemented across firms. For example:
  - ▶ Actuarial teams report to the CFO to evidence independence between “production” and “review” activity.
  - ▶ Control teams work alongside first-line teams to support control assessments.
  - ▶ Where the CRO leads both actuarial and risk teams, the use of an external appointed actuary can help with independence.

## Case study

### How can the three lines of defense work best in practice?

- ▶ Collaborate closely between risk and internal audit to define the audit plan
- ▶ Use a central risk register as a repository of all risks and controls, with formal quarterly attestation on key controls
- ▶ Implement common risk language and standards across the group
- ▶ Confirm the model is not a “tick-box” exercise
- ▶ Constantly educate the business on why it’s important

## What do CROs say?

“It’s difficult to maintain that independence with the first line. Particularly, it’s difficult to provide recommendations for improvement without impacting independence.”

“The biggest challenge is the small management team which makes it difficult from an independence perspective.”

“In terms of second and third line, this works well. Internal Audit can be too rigid sometimes and they shoot themselves in the foot by being so rigid in that line.”

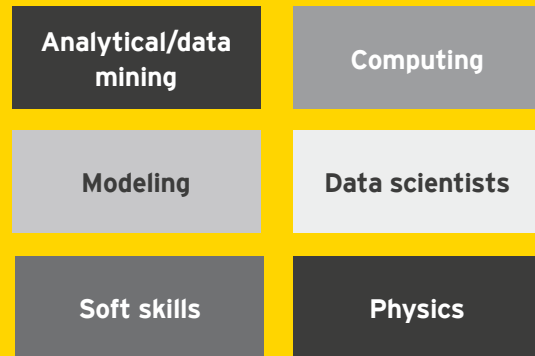


An aerial photograph of a crowded beach. The beach is filled with people and numerous colorful beach umbrellas. The ocean is visible in the background with waves breaking. A large yellow number '7' is overlaid in the top left corner.

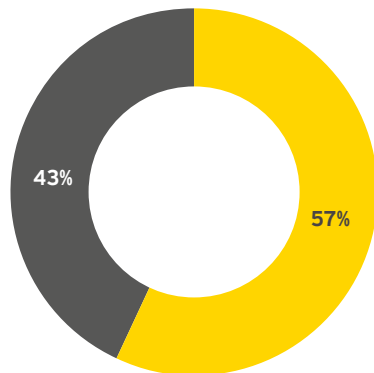
7

People and skill sets will remain a  
priority for investment

## Which skills are CROs looking for going forward?

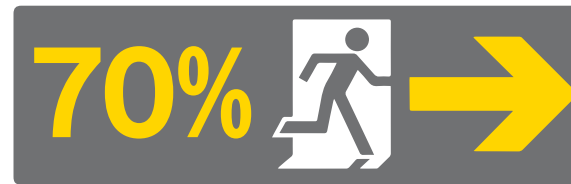
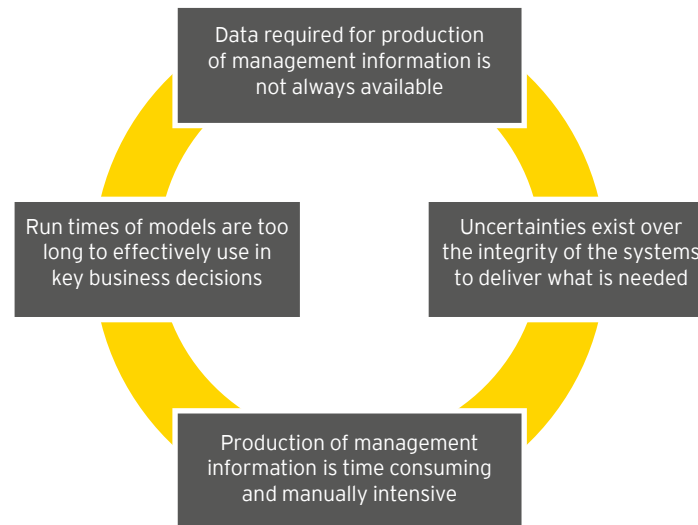


## CRO views on future budget for the risk function



■ Stay similar ■ Increase

CROs have identified a number of common technology constraints arising from their existing infrastructure that they would like to improve:



will prioritize investment in people and skills

## What do CROs say?

"We will focus on people although some investment in improving current IT infrastructure may be needed."

"Group has already made significant investments; therefore, I wouldn't know where to add value on technology."

"We are currently investing in new technologies and continuously asking ourselves which new technology we should have in place. We are also looking at the people side as we recognize that people risk is a key risk when it comes to new technologies."



# The risk function of the future

## Key insights

"Smaller teams with more automation. This will allow the CRO to focus more time on discussing strategic priorities as opposed to acting as a gatekeeper."

"Increasing involvement on external audiences, such as becoming closer to rating agencies and investors."

"Volatility will increase and the role of the CRO will need to adapt to help the business navigate the uncertainty."

"Be more focused on risk metrics to support the business rather than to satisfy regulatory reporting requirements."

"The CRO will have a larger responsibility in driving profitability."

"Financial services is becoming much more mathematical and CROs will need to be more quantitative."

"Having put the risk frameworks in place, the role will evolve into more of an advisory role to the CEO and board as the risk management framework matures."

"The CRO will have a better line of sight of the overall business through the risk framework and business strategy will be fully aligned with the risk policy."

### CRO strengths

More holistic role

More analytical

More IT-focused

Technical modeling

Soft skills





# Other CRO perspectives

## "Cyber continues to be a challenge."

### Survey results and commentary

- ▶ On the underwriting side, some respondents noted a low appetite for writing cyber risks.
- ▶ From an entity and group standpoint, cyber is an emerging risk, with cybersecurity in particular now being considered more rigorously and moving higher up the CRO agenda.
- ▶ Benchmarking and investment in technology are two focal areas that are used by one CRO to identify unusual behaviors and mitigate cyber risks.
- ▶ Some entities are looking toward dedicated cyber personnel and/or training existing personnel to manage their cyber risk exposure.

## "Brexit is still considered an emerging risk."

### Survey results and commentary

- ▶ CROs tended to refer to Brexit as an emerging risk rather than an immediate one, often representing part of their overall political uncertainty considerations.
- ▶ A number of respondents noted that they were actively monitoring and/or implementing strategies to mitigate foreign exchange risk and to hedge their investment portfolios.
- ▶ As Brexit negotiations progress, some CROs note that further clarity will help them better focus on the implications and revise their strategies.

## Actions taken as a result of Brexit



1. No action | 2/10



2. Initial steps | 6/10



3. Immediate action | 2/10

# How does Bermuda compare with other jurisdictions?

## Common themes with other jurisdictions

- ▶ Larger roles and increasing responsibilities are shaping the role of CROs, who are increasingly expanding their influence beyond traditional risk processes.
- ▶ While the CRO role varies across firms, there is a clear ambition among respondents to confirm the risk function is perceived as a trusted “business partner” and, sometimes, as a “strategic enabler.”
- ▶ Cyber risk; significant economic and geopolitical events, e.g., Brexit; and US elections will continue to shape the industry in the coming years and are future areas of focus for CROs.
- ▶ There are common challenges in implementing the three lines of defense model, particularly in terms of evidencing independence between Line 1 and Line 2 teams.
- ▶ Although CROs recognize the importance of continuing to invest in technology, their focus remains on people, particularly in terms of upskilling their teams in the area of cyber risk and data analytics.

## Key differences of the Bermuda CRO

- ▶ While regulatory intrusiveness has been a key theme in Europe and the US for some time, CROs in Bermuda have expressed their appreciation for the pragmatic and proportionate approach adopted by the BMA in implementing Solvency II equivalence.
- ▶ CROs in Bermuda have largely been able to leverage the work performed by their European counterparts to comply with the enhanced requirements under the new regime, being therefore able to provide additional focus on the business agenda.
- ▶ (Re)insurers’ approach to the identification and management of emerging risks in Bermuda is somewhat less developed compared with Europe, where ORSA requirements largely drove the need for more structure and formalization in approach.
- ▶ Although operational risk is an area for further improvement across all jurisdictions, this is not perceived as a key area of increased focus in Bermuda going forward.

# In summary

- ▶ The risk function has clearly established itself in the organizational structure, with CROs playing a role across all key processes within the organization.
- ▶ Bermuda CROs are confident in their ability to meet the enhanced regulatory requirements arising from the implementation of the Solvency II equivalence regime, recognizing that regulatory change will continue in the future.
- ▶ While the external risk environment continues to evolve – leading to new and rapidly changing risks – room for improvement exists to further formalize and structure a framework for the effective management of emerging risks as part of the overall risk management framework.
- ▶ Technology is recognized as one of the key tools to aid monitoring and reporting capabilities across risk functions. CROs are clear on the need to maintain an effective balance between investment in skill sets and investment in new technologies.
- ▶ Looking ahead, CROs acknowledge that their role will continue to evolve to meet the needs of their organizations, with the aim of becoming even more influential at the executive table and steering their firms' strategic direction.







# Eight questions to ask yourself

1.

Do my colleagues in the business share my view of the role of risk?

2.

Is risk as close a contributor as it could and should be to all the strategic change projects within the business?

3.

Do my best people have a clear career path with the firm? How will I close the talent gap, train and retain, and build for the future?

4.

How can I contribute to an agile global business while promoting suitable cascades of information and decision-making?

5.

Whom have I asked to own the assessment of technology options in risk?

6.

Where should we aim to influence further with other functions and initiatives within the business?

7.

How much more should risk focus on operational risk and cyber risk in particular?

8.

Do I have the right people driving the rhythm of interaction with each regulator and is everybody connected appropriately?





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