Taking the reins
Managing CRO transitions in the financial services industry
Introduction

Although there have long been corporate risk managers, the formalization of a senior executive with the CRO title took place relatively recently, in 1993, when it was adopted by GE Capital.\(^1\) Despite the newness of the position, it has become increasingly pervasive over the years—particularly as organizations aim to address rapid global change by adopting more risk-intelligent approaches. As of 2014, 92 percent of financial services institutions reported having a CRO or equivalent position, up from 89 percent in 2012 and 65 percent in 2002.\(^2\) With a growing number of executives coming into the role, and its relatively short tenure, it is becoming more imperative to understand the hallmarks of a successful transition.
Executive summary

Today’s global financial institutions operate in a high-speed market characterized by exponential change. Disruptive business forces, competition from fintechs, and unpredictable economic events have created an environment of relentless volatility, uncertainty, complexity, and ambiguity (VUCA). This, in turn, has created a risk landscape that is in constant flux. For instance, the emergence of a broader range of less traditional risk types is creating greater pressure for CROs of global financial institutions. Mounting regulatory mandates—including more stringent rules around corporate governance, risk appetite, capital adequacy, stress tests, technology, and risk culture—are also leading to heightened expectations. As a result, it is becoming increasingly complex to manage a successful transition into the CRO role.

This report was developed to help CROs transition more effectively. Based on interviews conducted with 48 CROs, including 21 CROs from global financial institutions and mono-line financial organizations—as well as additional research and experience related to executive transitions—we found that CROs face a range of challenges other C-level executives don’t typically encounter. These include the obligation to provide an effective challenge, the need to earn the right to provide challenge, and the mandate to manage a constantly-evolving job description through an ever broadening agenda and heightened regulatory expectations.

For instance, the imperative to develop a risk-intelligent culture requires CROs to align risk appetite with business strategy and make sure employees understand how to make appropriate risk-based decisions. The trend to expand the CRO mandate to a wider range of functional areas impacted by risks—such as compliance, anti-money laundering, legal, compensation, and cyber—requires CROs to cultivate a broader range of skillsets. With each passing year, CROs are expected to oversee an expanding array of risk categories—from conduct, compliance, strategic, and reputation risk to a new set of operational risks associated with the growing reliance on emerging technologies and the potential disruption posed by fintech. Similarly, as organizations try to refine their strategic focus and foster the agility required to both capture opportunity and defend against uncertainty (whether anticipated or not), CROs are increasingly tasked to ensure that their organizations’ risk taking remains well-managed and their executives are operating within an appropriately defined risk appetite.

It is our hope that, by reviewing the transition lessons shared here by CROs of global financial institutions, incoming CROs can get a better grasp of the job’s challenges, while determining in advance ways to prioritize their time, strengthen their talent, and foster effective relationships.
Becoming more strategic

There is little doubt that the CRO role is rapidly shifting. For instance, despite lacking a formal risk management background, the head of a large bank’s institutional business was recently selected for the CRO position due to the perception that the role was changing. Not only were market risk and market conduct issues coming to the fore, but new risks were emerging—including those related to disruptive technology, data and analytics, and cyber security—requiring a new breed of risk manager.

“The pace at which the CRO role is evolving is quite surprising,” this CRO noted. “Almost universally, organizations and regulators want a CRO with incredible breadth and depth in a range of subjects—from the ability to drive change and adopt a strategic outlook to proven geopolitical skills and the know-how to deal with regulators and analysts.”

This mirrors the trend at most global financial institutions. Of the CROs interviewed, while many CROs still rise through the ranks of the risk function, roughly half hail from business backgrounds. Traditional paths to the CRO seat include previous experience primarily from credit risk, but also in market risk, banking, and capital markets. In insurance firms, CROs were also often actuaries. In recent years, however, those routes have expanded to include backgrounds in operational risk, compliance, corporate strategy, audit, project management, and legal. CROs with a regulatory or consulting background are also becoming more prevalent. Not surprisingly, CROs’ previous experience tends to define their points of view on assuming the role, as well as the talent they need to attract to supplement their skillsets.

Yet, regardless of their previous experiences, each successive CRO is almost explicitly expected to become more strategic.

In many ways, this constant quest for improvement stems from how new the CRO role is relative to more established CXO roles, such as the Chief Financial Officer (CFO) or Chief Information Officer (CIO). Because the role is still being defined, CROs are frequently expected to assume a host of additional—and expanding—responsibilities.

Notably, many incoming CROs struggle to meet these high expectations. Based on our interviews of 21 CROs from global financial institutions and mono-line financial organizations, roughly one-third of CROs earned their role as a result of a predecessor’s missteps. For global financial institutions, those transitions generally occurred in the wake of the global financial crisis. Markedly, while one CRO we interviewed from a global financial institution had held his position for 15 years, over 60 percent had been in the role for under six years—a number that speaks to both the frequency of CRO transitions and the need to get them right. The bottom line is that the CRO role and, indeed, most C-level roles, can be fraught with a high risk of failure—making it critical for new CROs to properly plan and manage their transitions.

This report was developed to help CROs facilitate that process. It incorporates key findings from our interviews, surveys, research, and experience relating to executive transitions in general. We also drew insight from a series of CRO Transition Labs Deloitte has conducted globally—personalized, one-day workshops designed to help newly-appointed CROs frame their priorities and develop an action plan for success. Leveraging this input, this report shares practices CROs have used to navigate their transitions, discusses lessons learned, and provides some direction on how new CROs can move up the risk maturity curve to become more strategic.
Inside the CRO role

CROs face a range of challenges other C-level executives typically don’t encounter. That’s largely because the CRO role differs from other C-level roles in certain fundamental ways.

Providing an effective challenge

One of those core differences revolves around the CRO’s obligation—as part of risk management’s oversight responsibilities—to provide an effective challenge to both senior management and the business units. In essence, the effective challenge standard requires risk management practices to be critically examined by oversight bodies with sufficient competence, power, and incentives to generate change.

As a general matter, there is a clear consensus that modern risk management frameworks do not equate to eliminating risk from the organization. In fact, today’s risk functions focus less on constraining the business and more on setting appropriate loss parameters that align with the company’s risk appetite and then monitoring these risk parameters, as well as ensuring the firm has sufficient capital to absorb risks and is not put at risk financially. As part of its risk oversight responsibilities, if management tries to move outside the company’s risk appetite, risk management will elevate the issue and move to either constrain the risk taking activity or, in some cases, seek alternatives—such as risk mitigants or perhaps increases in capital resources to support an expanded risk appetite. This approach allows the business to pursue emerging opportunities without hitting up against an overly-restrictive risk culture.

The obligation to provide an effective challenge focuses on the CRO and risk management function challenging the key assumptions and elements of business plans and risk management approaches. The risk function may challenge key assumptions embedded in the business plan or in the models and scenarios used to evaluate and stress the business plan. As part of this effective challenge, the risk management function would evaluate both the supporting analysis and the rationale for these assumptions. Sometimes the effective challenge process is implemented through multiple layers: first, a more technical effective challenge performed at a working level; second, a management-level effective challenge that might be provided through a risk management committee; and third, a board-level effective challenge that may be provided through the board risk committee. The overall effective challenge seeks to provide a rigorous oversight process so that the business plans, models, scenarios, and other key elements of the company’s strategy and risk framework are more robustly constructed and supported, and address key risks and vulnerabilities.

“I don’t go out and tell people how to run their business units or what deals to do. I do, however, question the assumptions on which they’re basing their business decisions to ensure they’re considering risk margins. In essence, it’s our job to ensure there is consistency of thinking around risk.”
Earning the right to challenge

Before CROs can provide the challenge risk-based decisions require, they must gain the credibility to do so. Although not universally true, there seem to be two primary CRO background ‘prototypes’. The first category includes executives who have been with the organization for years—often decades—and, as a result, have now earned the necessary trust and respect. While by no means mandatory, of the CROs interviewed, some CROs even intimated that it helps to be close to retirement, as this gives them the appropriate level of freedom to challenge.

The second category includes high-performing business leaders who are being groomed for a different leadership role. While the CRO position is unquestionably a highly-effective training ground, CROs interested in transitioning from the role at a later date are often faced with a difficult balancing act as they must determine how to effectively challenge the business without alienating key stakeholders. To be fair, other executives also need the ability to influence without direct authority, so this is not a hallmark of only the CRO role. In any event, the trick seems to come down to carefully picking their battles.

Expanding responsibilities

The third element that differentiates the CRO role revolves around its fluidity. Because the role continues to evolve, the job description frequently starts narrow but seems to expand over time. In fact, of the CROs interviewed, when asked what’s in the job description, many CROs’ responses seem to be: “What isn’t?”

This wasn’t always the case. Before the global financial crisis, when the CRO role was first established, the risk function’s responsibilities were often more narrowly focused on activities such as risk reporting or calculating economic capital. While most large banks had dedicated Risk Committees, they generally met infrequently and were called upon only when the board needed information about risk.

That changed during the global financial crisis, when the role was subjected to intense scrutiny by boards and regulators. During this time, the CRO role was restructured and reinvigorated, creating a new era of executives who were given broad responsibility for enhancing risk governance across the organization. In an effort to strengthen risk management, global financial institutions began to shift reporting lines, giving CROs direct access to the CEO and board, soliciting their advice related to strategic decisions, and asking them to help set an appropriate risk appetite.

Post-crisis, the CRO role continues to strengthen. As this new regulatory landscape places greater demands on financial institutions in such areas as corporate governance, risk appetite, capital adequacy, stress tests, operational risk, technology data and information systems, and risk culture—among others—CROs are being called upon to heighten their organization’s response to this “new normal” environment of continual regulatory change focused on risk management. This is particularly true in light of the exponential rate of change organizations continue to face in a world characterized by mounting VUCA.
Risk culture is a particular focus for many. Not only does an in-depth understanding help CROs detect potential weaknesses and close gaps, but risk culture is now being highly scrutinized by global regulators. Today, the mere existence of a risk culture is no longer sufficient. Instead, organizations must demonstrate the existence of a risk-intelligent culture—one where risk-taking is aligned with business strategy and each employee understands how to make appropriate risk-based decisions. CROs at global financial institutions increasingly play a key role in this regard, taking strides to not only develop a common definition of risk and a common risk framework, but to keep them top of mind for employees across all business units. In doing so, they must secure buy-in from both executive leadership and the board, use consistent communications to promote cultural awareness, and hold people accountable for their actions.

As a result of these shifts, the CRO role continues to broaden—particularly from a functional perspective. Notably, according to Deloitte’s most recent global risk management survey, the majority of financial institutions feel they are extremely or very effective at managing traditional types of financial risks, such as credit, asset/liability, and liquidity. Fewer applied this ranking to newer and less traditional risk types, such as operational risk, systemic risk, and geopolitical risk.

“I was particularly surprised by the volume and breadth of the role. I hadn’t realized how much I would actually be responsible for.”

This is particularly salient given the rising importance of less traditional types of risk to global financial institutions. In the UK, for instance, the Financial Conduct Authority expects conduct risk management to be explicitly embedded into firms’ risk management frameworks—an expectation that North American authorities may ultimately adopt. Similarly, the survey cited above shows that most financial institutions place extremely or very high priority on managing three types of operational risk: clients, products, and business practices; business disruption and system failures; and execution, delivery, and process management. As reliance on new technologies—such as artificial intelligence and advanced analytics—comes to the fore, the challenges associated with operational risk management only promises to grow. Today’s CRO’s must also address a range of risks that were not a focus in the past—including the potential for disruption from fintech companies in areas ranging from payments, insurance, and deposits and lending, to capital raising, and investment management.

In light of this evolution, the skillsets CROs bring to the table are also evolving. Increasingly, CROs are expected to possess superior emotional quotient (EQ) and communication skills, cultural awareness, good listening abilities, acute business insight, and the knowledge of how to navigate each level of the organization—from peers and direct reports to senior leadership and the board of directors. They also need to have a strategic outlook, the ability to drive change, geopolitical skills, and financial acumen.
Key transition ingredients: time, talent, and relationships

In our studies of other executive transitions, we have consistently found that an executive’s success hinges largely on his or her ability to effectively manage three key resources: time, talent, and relationships.

Time
When it comes to time management, CROs tend to divide their time across four diverse roles or ‘faces’: operator, steward, strategist, and catalyst.

Figure 1: The four faces of the CRO

**Catalyst**
Influence behaviors to instil a risk intelligent culture across the organization and a risk based approach for decision making

**Steward**
Protect the organization through oversight and governance of the risk management framework

**Strategist**
Provide risk leadership in determining the organization’s strategy, incorporating strategic risk perspectives, risk appetite, and risk tolerance to optimize performance

**Operator**
Operationalize and manage the risk management framework including risk management function, risk methodologies, risk reporting/measurement, infrastructure, talent and technology
The first two roles are operator and steward. The operator role involves executing the operation of the risk management framework, including risk management function capabilities, risk methodologies, risk reporting/measurement, infrastructure, talent, and technology. For its part, the steward role involves protecting the organization through oversight and governance of the risk management framework. In essence, in the operator role, a CRO is focused on the risk function itself, while in the steward role, he or she works to create organization-wide governance and oversight frameworks.

The more transformative roles are strategist and catalyst. When acting as a strategist, the CRO provides risk leadership in determining the organization’s strategy, incorporating strategic risk perspectives, risk appetite, and risk tolerance to optimize performance. As a catalyst, the CRO then influences behaviors to instil a risk intelligent culture across the organization and a risk based approach for decision making.

CROs need to be the strategic risk partner for the business (e.g. helping them understand how they can maximize return on risk weighted assets while maintaining an appropriate risk appetite).

During the initial transition phase, the faces that tend to dominate the agenda of CROs at global financial institutions are operator and steward. In year one, the CROs we interviewed at global financial institutions spent roughly 40 to 45 percent of their time as operators, responsible for such activities as enhancing the structure—the capabilities, talent, and technology—of the risk function. An additional 25 to 30 percent of their time is spent as stewards, with the remaining amount allocated between strategist and catalyst. That’s largely because incoming CROs tend to focus on getting the risk management function in order before they begin influencing the organization at large.

**Figure 2: Typical time spent on the four faces in year one**

Source: Deloitte analysis based on CRO Transition Labs and surveys

**Fix what’s broken first**

At a more granular level, before incoming CROs can focus on becoming more strategic, they need to first spend time resolving any ‘burning platform’ issues. These can range from strengthening the three lines of defense model (see below), reducing systemic risks, and exiting losing positions without causing undue shareholder damage, to improving risk management policies and governance processes, enhancing regulatory compliance, or putting more effective stress testing processes into place.

To strengthen risk management at the enterprise level, CROs also spend time developing risk management capabilities such as consistent global methodologies, a firm-wide stress testing framework, a clearly-defined risk appetite, and a robust risk culture. Notably, to accomplish these goals, several CROs we interviewed went back to basics—taking time to gain an integrated view of risk across the enterprise to identify key gaps, rationalize risk categories, assess the effectiveness of existing controls, and determine how to prioritize the function’s focus.
Delegate, delegate, delegate

Once those frameworks are in place, CROs tend to delegate their operational responsibilities so they can shift their focus to the strategist and catalyst roles. This is imperative given that one of the biggest challenges associated with transitioning into this role is determining how to prioritize the workload and overall time management.

One CRO recalls working 18-hour days and still “getting nowhere”. Another found himself being invited to countless meetings that did not align to his priorities. To avoid getting bogged down, the CROs we interviewed stressed the importance of empowering team members to assume a greater level of responsibility.

“Any CRO could work 24/7 and still get through only 1/100th of the information they need to review.”

In some cases, the CRO’s mandate includes empowering direct reports to provide an effective challenge where warranted. In other cases, it includes setting up centers of excellence and shared service models to oversee enterprise-level risks, while relying on line of business CROs to oversee divisional risks. Notably, the centralized model seems to be trending despite the ongoing tension of adopting an operating model that aggregates expertise within a center of excellence rather than one that relies on business unit-aligned CROs and risk managers. That said, it is incumbent on CROs to determine the model (or models) that best fits their operational realities.

Either way, these decisions reflect an understanding that CROs cannot hope to oversee every element of risk within the organization. Instead, they must rely on the three lines of defense (3LOD) risk governance model in an effort to embed risk management and make it everyone’s job.

At a high level, the first line of defense is composed of business unit management and staff who are responsible for identifying and assessing risk exposures for each business unit or functional area, and taking steps to manage, transfer, or avoid those risks. As the second line of defense, CROs and other risk managers are responsible for establishing and monitoring the implementation of effective risk management practices, policies, and risk assessment methods—as well as the organization’s risk exposure status—and reporting to the board. Internal audit operates as the third line of defense, responsible for validating controls, objectively reviewing risk management processes, and providing assurance to senior executives and the board on assertions of risk exposure.

Within the 3LOD framework, CROs have the authority to assess the internal controls and risk systems across the organization. In exercising this authority, some CROs have begun to consolidate key risk functions within the second line of defense and, once they are operating optimally, push operational responsibilities back into the first line—while retaining governance, policy, and challenge within the second line. For example, if—at some point in the future—compliance falls under the risk function, a CRO may ultimately move operational items—such as AML and trade surveillance operations—back into the front line, so that the risk function can continue to effectively exercise its governance and challenge responsibilities. Significantly, of the CROs interviewed, most CROs agreed that, once team capabilities are up to par, items of a transactional or operational nature should be readily delegated.

To be sure, certain activities fall squarely under the purview of the second line of defense. Typically, these include developing and implementing the risk management framework, methodologies, standards, policies, and limits; overseeing risk model governance; identifying opportunities to optimize risks; and meeting regularly with the board of directors or board risk committees. Other activities, however—such as monitoring first line of defense activities—require an exercise in judgment.
to determine whether they belong within the first or second lines. For example, many organizations have developed first line of defense monitoring activities within the business units, while others perform this within the risk management function.

Interestingly, this dynamic plays out throughout the career of CROs at major financial institutions. As the role expands and new risks are pulled into the second line, these CROs often go back to becoming operators and stewards as they work to strengthen the risk processes related to those risks. Once those processes are sufficiently robust, the risk function can both train and monitor business unit managers on their implementation and effective execution, freeing up the CRO’s time to focus on acting as strategist and catalyst.

This seems to align with our previous research related to other CXO transitions, such as for the CFO and CIO. Most CFOs felt that they were primarily operators and stewards, with the first two years following transition consumed by transforming the finance function. Similarly, during the transition phase, CIOs’ time was dominated by the operator and technologist roles—the latter of which is similar to the steward role. In fact, based on our previous research, CIOs typically spend 60 to 70 percent of their time in operator and technologist roles during their first six to 12 months in the position, after which they begin to spend more time as strategists and catalysts.

**Ask questions and listen**

Once critical issues are addressed, the real work begins. Among the CROs of the global financial institutions we interviewed, all—save one—were internal hires. In these complex, multinational organizations, there is a clear preference to promote from within to ensure the new CRO understands the corporate culture and has developed good working relationships with key stakeholders.

Yet, even within a company they’re familiar with, new CROs are often surprised by the full scope of the role.

“Despite knowing 80 percent of what was going on in the risk function, I felt underwater for the first three months.”

As a result, most new CROs stress the importance of carefully listening and observing before making any significant changes. In addition to meeting with the organization’s business and functional heads to ask questions about their business area and risks, determine their perceptions of the risk group’s performance, and uncover their expectations, the CROs we interviewed also spoke to external people—including peer CROs—about the changing role of risk. They met with their direct reports and other line of business CROs, spoke to members of the Risk Committee and/or Audit Committee, met with regulators, traveled to key business locations around the world, and invited third-party consultants to conduct independent reviews of the risk management function.

For most new CROs, this so-called ‘listening tour’ continued for their first 90 days in the role and was considered a critical step in fully understanding the organizational culture and gaining credibility with senior stakeholders by hearing and responding to their concerns.

**Set priorities**

In addition to consulting with key stakeholders, new CROs typically also aim to conduct strategic and functional reviews within their first three to six months to assess the strengths and weaknesses of the risk function.
To accomplish this, many CROs ask their reports for briefings on important work in progress, as well as their view of the risk landscape—both the current and the potential risk profile facing their unit or the organization as a whole. This provides insight not only into how the risk group collaborates, but also into the threats the team perceives looming on the horizon. It also allows new CROs to quickly determine which direct reports are suited—or unsuited—for the job.

CROs also recommended taking the time to review the organizational structure, determine if the risk management function is positioned for the organization’s strategic plans, assess if the structure of the risk management team matches the function’s objectives, and reassess the risk appetite framework vis-a-vis the organization’s top risks. In fact, in recent years, the importance of implementing a board-approved risk appetite and framework has become increasingly clear—and, in some cases, mandatory, as it is, for example, under the US Federal Reserve’s Enhanced Prudential Standards (EPS). As newly-appointed CROs work to strengthen risk management policies and procedures, review and enhance the risk appetite statement with input from senior management and the board, monitor risk limits, and communicate with the CEO and board regarding exceptions, they hone their ability to assess the relative maturity of their function.

With this analysis in hand, incumbent CROs tend to spend the next three to six months closing any identified gaps and enhancing capabilities.

For some, this included strengthening regulator relationships by enhancing compliance practices and putting formal regulator communication strategies into place, including guidance—either good or bad. For others, it involved engaging with the business to review business-level and product-related risks, track team initiatives, build relationships, and understand their perceptions of risk. And for virtually every new CRO, a top priority included addressing talent issues. These ranged from identifying talent gaps, recruiting any needed missing talent, and fostering team collaboration, to spending time on the health and culture of the function, people development, succession planning, and supervision and management.

While these are significant challenges, getting these elements right is a source of considerable job satisfaction. Several of the CROs we interviewed indicated that the most rewarding parts of the job include creating cohesive and involved teams, gaining engagement at the board level, participating in strategic development, earning trust from the business, and leveraging this combined credibility to pilot transformative change.

Learn by doing

Regardless of the steps they took to prepare for their transitions, the majority of CROs agreed that there is no substitute for “charging in”. Numerous CROs described the role as “drinking from the fire hose”, particularly in situations where they assumed the role during a crisis.

Despite this imperative, most of the CROs believed they would have benefited from a more formal transition plan. One CRO touted the benefits of working with the HR department to identify all critical stakeholders. Another suggested developing a set of progressive 30-, 60-, and 90-day plans, while still recognizing they might take 180 days to complete. Two others stressed the importance of working with external consultants to develop an effective leadership strategy.
The overarching theme is clear: at the outset, CROs must take the time to establish a baseline, identify critical talent gaps, uncover any regulator concerns, and assess the health of the organization’s risk management framework.

**Talent**

The CROs we interviewed at global financial institutions managed teams as small as 250 people and as large as several thousands. Regardless of the size of the team, however, every CRO emphasized the critical importance of attracting people willing and able to strengthen the risk management function.

In some cases, this was simply a matter of assessing talent on-hand and moving existing resources into new or slightly different roles. In other cases, however, more significant change was required. In fact, roughly 40 percent of the CROs we interviewed changed at least 30 percent of their direct reports within one year of assuming the role. This is not to imply that these changes are easy. Several CROs had to level-set their intentions with the board up front to advise them of the scale of change they would be engaging in. Many others said that letting people go ranked as one of the toughest decisions they had to make following transition.

**Fostering appropriate resources**

Despite the challenge, however, talent decisions remain among the most critical for new CROs. Without appropriate resources in place, CROs have difficulty disseminating a risk culture across the organization, gaining buy-in from the business, and appropriately overseeing enterprise risks.

As such, it is imperative to foster the right skillsets and clarify responsibilities. In addition to ensuring team members possess appropriate quantitative and other technical skills, risk functions require team members with certain intangible capabilities. These include the ability to collaborate, communicate, and work effectively in a team environment. Teams also need the capacity to demonstrate courage and understand how to engage with the business. Notably, this requires an understanding of the business implications of risk, as well as the objectives the business is trying to achieve.

Of the CROs interviewed, incumbent CROs in the financial services industry increasingly look for people with a business background, as they tend to bring a real-world perspective to the risk management function. Similarly, CROs require people with broader-based knowledge and a solid understanding of substantive business issues, so that staff can more seamlessly work across organizational risk silos.

In fostering these capabilities, it also makes sense to keep succession planning in mind. Most CROs of global financial institutions are committed to finding and training internal candidates for their role and for other key risk management roles, which highlights the importance of building teams with appropriate resources.

**The need for speed**

Regardless of the strategies employed, the majority of CROs we interviewed regret not moving faster to hire the right staff and realign their teams. There is a certain opportunity that exists as a new executive gets to know people, but before relationships get too familiar, enabling them to make unbiased decisions more rapidly. Having the right people on board also makes delegation easier.
That said, there is still a danger in moving too fast. The CROs we interviewed acknowledged the imperative to assess existing team members before making significant changes. As one CRO noted, “When changing team structure, I personally work to recall the Hippocratic oath to do no harm. I suspect all CROs would aspire to make quicker changes, but my inclination is to avoid going too quickly because it involves decisions about people.”

Based on our interviews, the optimal timing for making talent changes seems to be sometime between the third and sixth month after assuming the role. This typically gives CROs enough time to assess team resources and close gaps.

**Relationships**

To streamline the transition, it is important for CROs to solidify key relationships as early as possible. Both at the hiring stage and beyond, the CEO is universally considered the most critical stakeholder at global financial institutions, followed by the chair of the board risk committee. In the US in particular, there has been a growing trend toward the board of directors placing oversight responsibility in a board risk committee, especially since the issuance of the Enhanced Prudential Standards (EPS) by the Federal Reserve. That trend may extend internationally as well, in light of drivers such as the US Federal Reserve’s Comprehensive Capital Analysis and Review (CCAR) stress testing requirements, as well as finance and risk data and analytics. Many CROs look to strengthen relationships with the head of the technology function given both the reliance on—and the need to strengthen the capabilities of—risk information, analytics, and reporting. Others stress the importance of strengthening relationships with direct reports and line of business CROs within the organization. Most of the CROs we interviewed also recommended building a network of peers—CROs at other organizations who could act as sounding boards and to whom they could turn when in need of advice.

**Working with regulators**

Given the outsized effect regulatory decisions can have on financial institutions, of the CROs interviewed, regulators are frequently considered one of the most critical stakeholders for financial institution CROs—to an extent that surprised some incumbent CROs. In light of the growing complexity of regulatory mandates in the financial services industry, regulatory compliance is increasingly seen as a risk function priority—particularly in the US and UK. Institutions that have come under regulatory review or that have misunderstood regulator expectations can face significant regulatory pressure, mandating CROs to solidify their relationships with regulators—both domestically and globally. This in part explains the trend for CROs to hire former regulators to join the risk function.

Notably, managing these relationships can be quite time-consuming. Some CROs even report spending so much time on the regulatory agenda that they lack appropriate time to fully focus on risk management issues. Given the imperative to communicate consistently both internally
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and externally, many CROs point to the need for a clear engagement model to govern communications with regulators. These models could, for instance, set out how the organization communicates key messages, who they maintain relationships with, and which individuals are authorized to communicate with regulators.

“When I first started in the role, I think I dealt with three regulators. Now I probably deal with 20.”

That said, this relationship requires a fine balance. As one CRO noted, “Regulators want us at the highest level, but we need to decide how to achieve proper compliance in a cost-conscious manner. Invest too little and you end up offside. Invest too much, however, and you are no longer adding value for the money.”

**Relationships with the business**

Last but by no means least, relationships with the business can be particularly tricky for CROs to navigate given the CRO’s explicit mandate to provide an effective challenge to the business. Some CROs transitioned into environments where the relationship between the risk team and the first line were already adversarial. These conflicts have to be resolved if CROs hope to encourage business heads to turn to the risk function as early in their decision-making processes as possible.

“Risk is the control function and the business needs to respect that. They have to understand that you can and will say no.”

To gain credibility with the front line, however, CROs must know the players. This explains why most CROs spend considerable time developing personal relationships with the business in an effort to build trust. It also explains the growing trend to hire CROs who have front line business experience.

They also aim to position themselves as advisors rather than police officers. Where they fall along this continuum will depend on specific business settings and situations. However, in general, there is a consensus that more value is added when CROs have the capacity to act as strategic business advisors. The key is to earn the right to provide an effective challenge so that the business will more readily accept the CRO’s advice. To do this effectively, most CROs agree that it is not their job to eliminate all risks. Instead, their focus should be on defining appropriate risk frameworks, as well as consistent language and approaches for the organization, including developing a risk appetite statement and framework, creating risk monitoring processes, and providing an effective challenge when and as required.

This requires a well-considered strategy regarding when—and when not—to say no. From the CRO’s perspective, this also means using the power of the position—and personal credibility—to influence a decision, rather than solely issuing formal challenges. If the risk function is clear about the organization’s risk appetite and fosters a functioning risk culture, the majority of decisions shouldn’t need to be challenged. CROs should also partner with the business to optimize the strategic capital allocation and help them maximize their business’s overall ROE.

When a challenge is required, however, a leading strategy is to have a strong analytical and factual foundation for disagreeing and to provide a rationale supported by as much data as possible. In many cases, there may be mitigants or transaction structuring alternatives that would reduce risk to a level acceptable within the risk appetite and allow the transaction to proceed. While the challenge may be used regularly, a veto resulting from the challenge would generally be exercised rarely. Either way, a CRO must still be willing to put their foot down when necessary and take unpopular stances to protect the best interests of the organization.
Lessons learned

To facilitate the CRO transition, we asked the executives we interviewed if they had any advice for new CROs coming into the role. The following outlines many of the lessons they shared about managing their time, talent, and relationships in the first year.

**Decide quickly**

Despite the imperative to understand resource capabilities and group dynamics before making significant people changes, a high percentage of CROs felt they didn’t move fast enough to restructure their teams. Beyond the benefits of changing direct reports to ensure appropriate resources are in place and put a stamp on the culture, there is a danger in allowing strong personalities to undermine the agenda for too long.

**You don’t need to know everything**

Regardless of the need to make certain decisions quickly, new CROs must spend some time in advance learning the intricacies of the business.

That said, CROs cannot allow themselves to become bogged down in the minutiae. At some point, a new CRO must begin to make his or her own decisions, even if they differ from the direction a predecessor has set. As one CRO noted, “One of my professors once said: mathematics is not a spectator sport. You can’t learn it just by reading about it. Risk is similar. You need to learn as you go. And that can be scary, because the impact of the decisions you make today may not be felt for several years.”

On the plus side, most CROs agree that it is possible to make decisions without being an expert in everything. As a senior executive, a CRO’s highest and best use is to lead, not to manage. The trick is for CROs to have sufficient knowledge to ask the right questions and sufficient wisdom to know when additional resources are required to appropriately assess key business decisions.

**Adopt systems to stay up to date**

It’s also important to adopt a good suite of daily and monthly management information systems to remain well-informed of the organization’s strategies and evolving risk profile. In an ideal world, CROs would have access to robust technology capable of enhancing risk function efficiency and generating clear, well-focused analytics. The aim is to generate actionable information that can be easily consumed both by risk officers and business lines. Some organizations work to develop advanced risk analytics to achieve this aim. As reliance on advanced financial risk analytics becomes more prevalent, risk functions will need to attract people with appropriate technical skills—those that enable them to gain predictive and detective insight, particularly in some of the newer risk categories.

**Keep an open mind**

Before exercising their obligation to provide an effective challenge, CROs should also take the time to understand the issues and avoid forming pre-set conclusions. To manage risk effectively, CROs must listen to all sides of an argument and be prepared to change their minds depending on the facts presented—while operating squarely within the parameters of the organization’s risk appetite and risk culture.

On the flip side, certain behaviors shouldn’t be tolerated. One CRO recommended connecting business unit performance evaluation and remuneration to compliance with risk mandates. As he noted, “There should be a line that, if you cross it, you get terminated, no matter how much money you made for the bank.”
Taking the reins

Today’s risk landscape continues to rapidly expand. Constant volatility, growing uncertainty, and mounting complexity and ambiguity have all contributed to a world characterized by exponential change—ranging from geopolitical turmoil and climate change to disruptions caused by emerging fintech companies. As these risks expand, the functions that fall under the purview of global financial institution CROs will likely continue to expand as well. This will mandate CROs to continually return to the operator role to strengthen their organization’s risk foundation.

Over time, however, most CROs still aspire to become more strategic. Not only do they aim to play a core advisory role to the CEO, but they also hope to be consulted in advance before business heads make critical decisions. And they hope to create a sustainable model on which their successors can build.

Awareness of these objectives can help incoming CROs get a better grasp of the job’s magnitude, while determining in advance how best to prioritize their time, strengthen their talent, and foster effective relationships.

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Endnotes


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CRO Transition Labs
Deloitte’s CRO Program offers confidential workshops to select CROs in transition to help them develop their 180-day action plan. If you are a CRO in transition, contact the CRO Program to learn more about how we can help you succeed. For more information, please contact us.

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